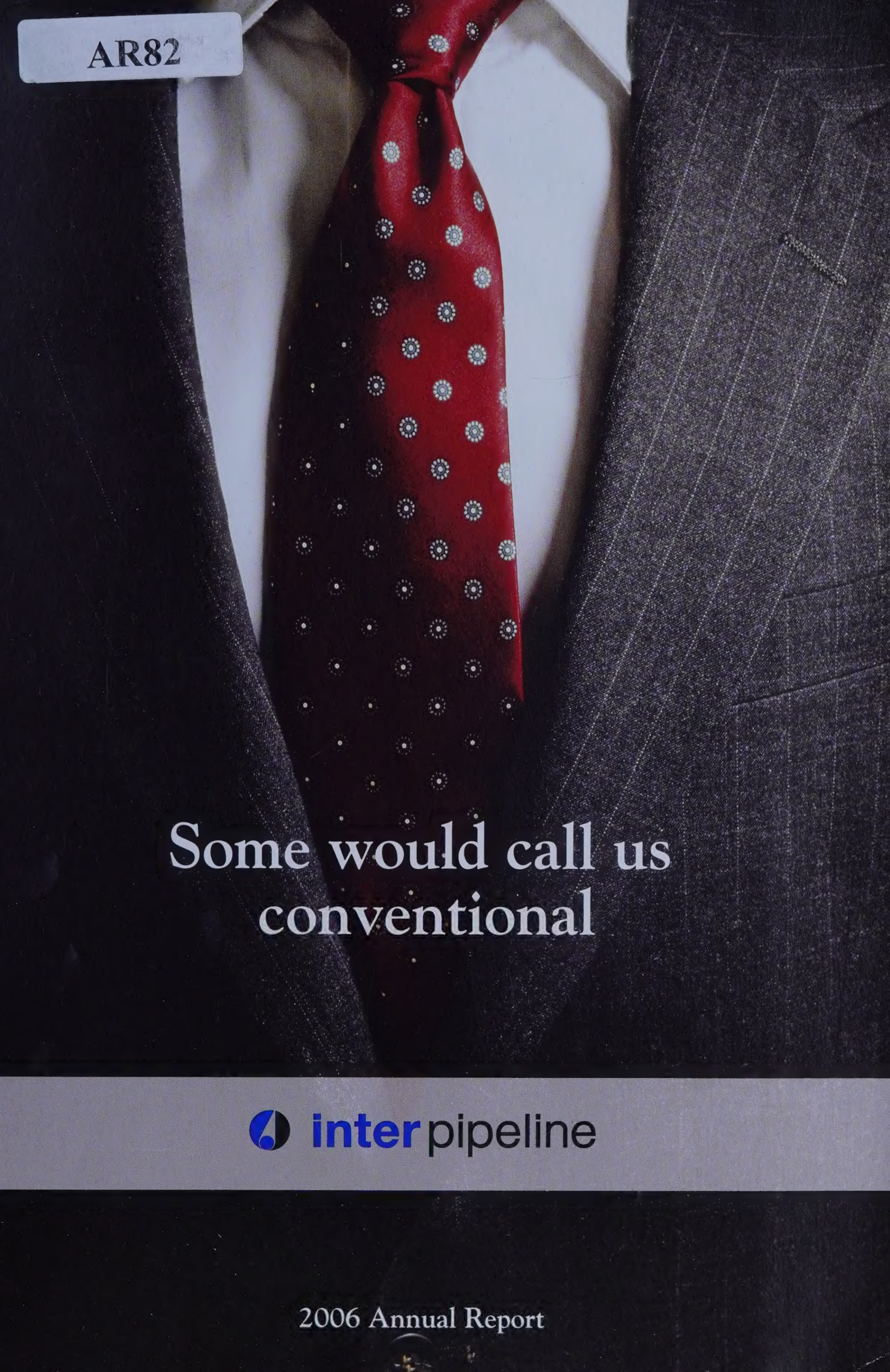


Some would call us conventional

inter pipeline

2006 Annual Report

Our investors say that's a good thing.

» Here's why:

1 Long-Life Energy Infrastructure Assets

2 Contract-Based Cash Flow

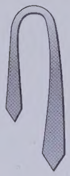
3 Organic Growth Opportunities

4 Stable Cash Distributions

5 Financial Strength

A 60-second Briefing

(the amount of time it takes for a conservatively dressed investor to tie a Windsor knot)



1. Start with wide end of the tie on your right and extending a foot below narrow end.

Long-Life Energy Infrastructure Assets

Our assets include conventional oil pipelines, oil sands transportation, natural gas liquids extraction and bulk liquid storage assets.

1

Sounds a little dull? The pay off is pretty exciting.

Inter Pipeline's assets are strategically located primarily within the vast oil and natural gas producing regions of western Canada. Our bulk liquid storage assets are located at deep water ports in the United Kingdom, Germany and Ireland.

For instance, our 4,000 kilometres of conventional oil pipelines in Alberta and Saskatchewan link mature producing areas to refineries in the United States and transport 18 percent of all conventional oil produced in western Canada. Our natural gas liquids extraction plants straddle the largest natural gas pipelines in Alberta and are among the largest producers of natural gas liquids in North America. Our bulk liquid storage assets in western Europe are highly integrated with regional refining and petrochemical operations.

Some of the biggest energy projects in North America – the oil sands in east-central Alberta – are on our doorstep.

Our oil sands transportation pipeline system moves 27 percent of all oil sands production, making it the largest transporter of bitumen from the Cold Lake area. Oil sands production will continue to grow over the next several decades, providing years of steady cash flow.

Our assets have been delivering for decades and we expect them to continue performing for decades more.

2. Cross wide end over narrow and bring up through loop.

Contract-Based Cash Flow

The majority of our cash flow is underpinned by long-term contracts ranging up to 20 years. Contract types include fee based, cost of service and commodity based agreements.

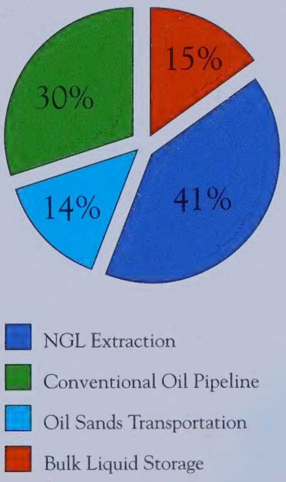
2

How does that affect cash flow stability?

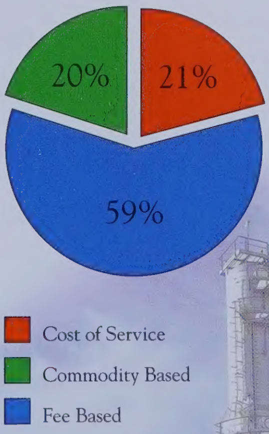
It's simple. Because some of our rates and volumes are contracted in advance, we can count on a stable cash flow stream regardless of commodity prices or volumes transported or processed. For instance, our oil sands pipeline is backed by a long-term ship-or-pay transportation contract, which assures a minimum amount of revenues regardless of the throughput.

Our bulk liquid storage assets are 100 percent fee based, as are most of our NGL extraction assets.

2006 EBITDA
by Business Segment



2006 EBITDA
by Contract Type



3. Bring wide end down, around behind narrow and up on right.

Organic Growth Opportunities

Our pipeline, NGL extraction and bulk liquid storage assets have significant expansion opportunities. Organic growth initiatives contributed to our record financial results in 2006.

Organic Growth Capital Expenditures

($ millions)	2007E	2006
Growth Capital		
Oil sands transportation	$ 30	$ 17
Bulk liquid storage	27	14
NGL extraction	15	7
Conventional oil pipelines	10	14
Total Growth Capital	$ 82	$ 52

» In 2006 we completed our largest ever organic growth program. And we expect capital expenditures to be even higher in 2007.

Highlights of Key Projects

CONVENTIONAL OIL PIPELINES

In 2006, Inter Pipeline completed the Bow River South pipeline expansion which moves oil from the storage and blending hub at Hardisty, AB to refineries in the northwest United States. The pipeline now has the capacity to move 36,000 barrels of oil per day southbound from Hardisty.

NGL EXTRACTION

In 2006, Inter Pipeline announced a $36 million project to increase ethane production by 45 percent or 7,000 barrels per day at the Empress V NGL extraction plant.

OIL SANDS TRANSPORTATION

Inter Pipeline invested approximately $17 million in 2006 to increase the capacity of the Cold Lake pipeline system. EnCana, Canadian Natural Resources and Imperial Oil, the three founding shippers on the Cold Lake pipeline, have aggressive plans to continue to grow bitumen production in the area.

BULK LIQUID STORAGE

Simon Storage expanded at its Immingham West terminal to accommodate the growing biodiesel market in western Europe. Simon has reconfigured nine existing bulk tanks to provide 18,000 m^3 of storage under a 20-year contract to handle biofuel products for Greenergy's new 100,000 tonne biodiesel facility.

4. Then put down through loop and around across narrow as shown.

Stable Cash Distributions

We may be conventional, but we've delivered what matters most to our unitholders – higher cash distributions and continued stability.

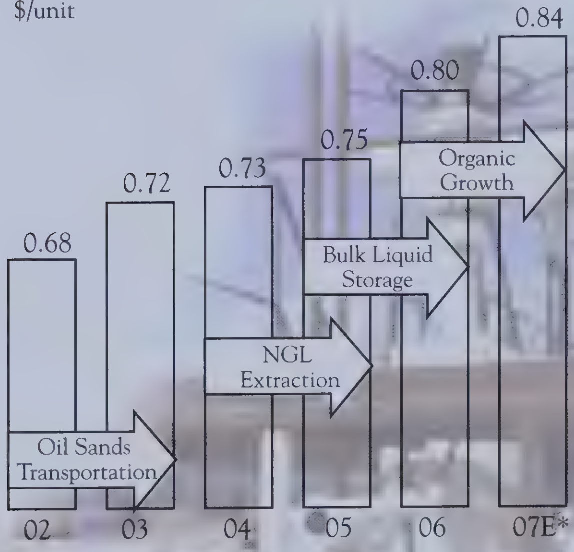
How have cash distributions been able to continually grow?

Since 2002, Inter Pipeline has grown its cash distributions by investing in accretive, stable, cash-producing businesses and capturing organic growth opportunities. Our 2003 distribution increase was a result of the purchase of EnCana's 70 percent interest in the Cold Lake pipeline, giving us a commanding presence in Alberta's oil sands region. Distributions rose again in 2004 when we moved beyond pipelines to acquire the Williams' Canadian NGL Extraction business. The acquisition of Simon Storage's bulk liquid storage assets boosted distributions again in 2005.

The completion of several organic growth projects allowed us to again increase distributions in late 2006.

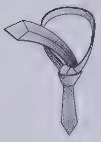
Cash Distributions

$/unit



*Based on current monthly distributions annualized over 12 months.

60-second Briefing



5. Turn and pass up through loop.

6. Complete by slipping down through the knot in front. Tighten and draw up snug to collar.

Financial Strength

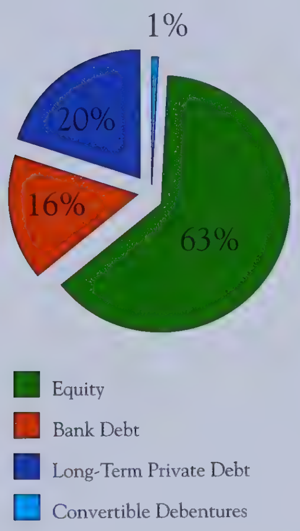
Our balance sheet packs a lot of power, which allows us to pursue strategic acquisitions and to fund organic growth projects within our existing asset base.

5

A strong balance sheet gives us financial flexibility and the ability to capture new opportunities.

Our long-term debt at December 31, 2006 represents only 36 percent of total capitalization – one of the lowest in our peer group. Inter Pipeline has an investment grade, long-term corporate credit rating of BBB from Standard & Poor's.

Capital Structure



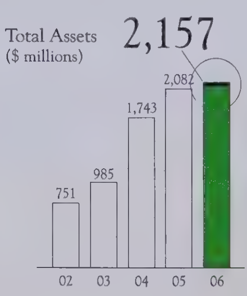
2006 was a record year

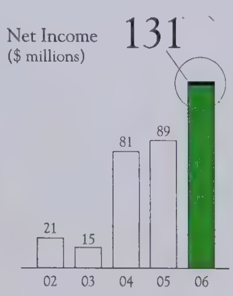
Selected Financial and Operational Highlights

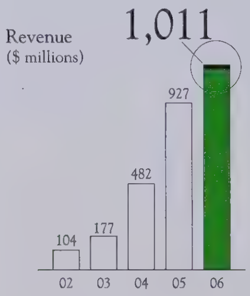
	2006	2005*	% Change
Volume (thousands of barrels per day)			
Pipeline volumes**			
Conventional oil pipelines	211.9	201.4	5%
Oil sands transportation	329.9	289.1	14%
Total pipeline	541.8	490.5	11%
NGL extraction volumes			
Ethane	89.2	91.8	(3)%
Propane plus	52.9	51.6	2%
Total NGL extraction volumes	142.1	143.4	(1)%
Capacity utilization (%)			
Bulk liquid storage	95.3%	95.0%	n/a
($ millions, except where noted)			
Revenue	1,011.0	927.0	9%
EBITDA	246.9	190.4	30%
Funds from operations	205.4	153.0	34%
Net income	130.6	89.3	46%
Cash distributions	160.8	137.7	17%
Cash distributions (per unit)	0.80	0.75	7%
Payout ratio before sustaining capital (%)	78.3%	90.0%	n/a
Total assets	2,157.1	2,082.4	4%
Partners' equity	1,198.4	1,033.1	16%
Market capitalization	1,823.6	1,855.2	(2)%
Total enterprise value	2,510.1	2,676.9	(6)%

* Results from bulk liquid storage operations are for the period of October 4 to December 31, 2005.

** Volumes reported on a 100% basis.







President's Letter to the Unitholders

I am extremely pleased to report that Inter Pipeline Fund achieved record financial results in 2006. At the same time, we aggressively advanced several important commercial strategies and successfully integrated the operations of recently acquired businesses. Again in 2006, we extended our track record of strong environmental, health and safety performance.

In recent years Inter Pipeline has experienced tremendous growth, primarily through the acquisition of complementary energy infrastructure assets in Canada and western Europe. Since early 2002, we have invested over $1.4 billion in the acquisition of high quality energy transportation, processing and storage facilities. These acquisitions have allowed Inter Pipeline to diversify our portfolio of assets while strengthening the long-term sustainability of our business. We have recently been recognized among the *Profit 100* fastest growing companies in Canada and the *Venture 50* fastest growing companies in Alberta.

During 2006, Inter Pipeline's commercial focus shifted toward the development of several attractive projects to expand and enhance our existing asset base. In particular, we invested approximately $52 million in "organic" development projects to increase pipeline capacity, enhance NGL recovery rates and meet growing demand for the storage of bulk liquid products. These expenditures represent our largest-ever capital program for re-investment in existing lines of business.

2006 Highlights

2006 has been a very rewarding year at Inter Pipeline in terms of financial, commercial and operational performance. Each of our four business segments – oil sands transportation, NGL extraction, conventional oil pipelines and bulk liquid storage – delivered exceptionally strong results.

Inter Pipeline's key accomplishments in 2006 are described below:

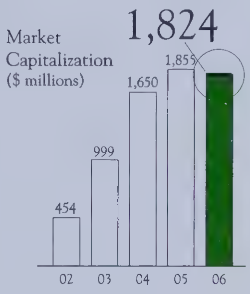
- Surpassed the milestone of over $1 billion in annual revenues for the first time.

- Increased monthly cash distributions by 7.7% to $0.07 per unit in September. This represents our single largest increase in cash payments to unitholders. Inter Pipeline now distributes $0.84 per unit on an annualized basis.

- Paid total cash distributions of $161 million, while generating funds from operations of over $205 million. This resulted in an attractive payout ratio before sustaining capital of only 78%.

- Acquired Tanklager-Gesellschaft Hoyer mbH, an independent bulk liquid storage business in Mannheim, Germany for approximately $38 million. This transaction resulted in the addition of 1.9 million barrels of petroleum and petrochemical storage, increasing Inter Pipeline's total storage capacity in western Europe to 7.9 million barrels.

- Pipeline throughput volumes increased to a record 541,800 barrels per day.
- Completed major pipeline expansion projects on the Cold Lake and Bow River systems, while advancing long-term ethane supply projects at the Cochrane and Empress V NGL extraction plants.
- Successfully raised $150 million through the completion of a new offering of Class A Limited Partnership Units.
- Achieved zero employee lost time incidents within Inter Pipeline's Canadian operations.



Focus on Organic Development

Through strategic acquisitions, Inter Pipeline has developed a well-diversified portfolio of energy infrastructure assets. When screening acquisition opportunities, we have paid particular attention to the scale of operations and the potential to enhance profitability through the execution of organic development projects. During 2006, Inter Pipeline successfully advanced several important organic development projects within each of our business segments to strengthen our overall business.

Oil Sands Transportation

In 2006, we experienced record delivery volumes on our Cold Lake pipeline system. Inter Pipeline owns an 85% interest in the Cold Lake system which provides transportation services for the vast bitumen deposits in the Cold Lake region of east-central Alberta. Delivery volumes averaged 329,900 b/d in 2006, representing a 14% increase over 2005.

Inter Pipeline made several significant capital investments on the Cold Lake system in 2006 in response to the aggressive growth plans of our three shippers – EnCana, Canadian Natural Resources and Imperial Oil. Pumping capacity was significantly expanded at both the EnCana Foster Creek and Canadian Natural Resources Wolf Lake pumping stations. Additionally, pumping and oil transfer upgrades were completed at Inter Pipeline's La Corey terminal. In total, approximately $17 million was invested in the Cold Lake system to meet growing oil sands bitumen production from the region.

NGL Extraction

Inter Pipeline holds interests in three world-scale natural gas liquid extraction plants in southern Alberta. Collectively, our Cochrane, Empress II and Empress V extraction plants have the capacity to process 6.2 billion cubic feet of natural gas per day. These facilities currently process approximately 40% of all natural gas exported from Alberta. Inter Pipeline's NGL extraction business has become one of the largest producers of natural gas liquids in North America.

2006 proved to be a dynamic year for our NGL extraction business. Two large-scale expansion projects were announced: the Empress V expansion project and the Cochrane Ethane Recovery Project, or CERP. The Empress V expansion involves a $36 million capital investment to increase ethane extraction capacity by approximately 45% to 22,000 barrels per day. Incremental production will be sold under a long-term contract to Dow Chemical Canada. Inter Pipeline's share of capital will be proportionate to its 50% interest in Empress V and the project is expected to be complete in 2008.

In August, 2006, Inter Pipeline announced the construction of an $80 million gas processing unit to increase the ethane recovery efficiency at the Cochrane extraction plant. This project, known as CERP, will replace two low efficiency extraction units with a more technologically advanced processing unit capable of increasing ethane extraction capacity of the Cochrane plant by 15,000 b/d to 80,000 b/d. As a result, Cochrane will become one of the most efficient NGL extraction facilities in North America. Pending regulatory approval, CERP is expected be operational in 2008.

Bulk Liquid Storage

Our bulk liquid storage business in western Europe consists of approximately eight million barrels of storage at nine terminals located in the United Kingdom, Germany and Ireland. Our operations are highly integrated with the operations of major oil refining and petrochemical facilities, with our terminals receiving and delivering products via ship, rail, truck and pipeline.

Inter Pipeline acquired its first European bulk liquid storage business, Simon Storage Ltd., in late 2005. As a follow-on investment, Inter Pipeline acquired the German storage business Tanklager-Gesellschaft mbH in early 2006. During our first year of ownership, these businesses have provided several attractive organic investment opportunities. A key area of focus is the development of new facilities to handle and store biofuel products. For example, through the refurbishment and construction of storage facilities at the Immingham West terminal, we intend to handle and store products for a second biodiesel plant being constructed by Greenergy Biofuels. This is the second major biodiesel project that Simon Storage has undertaken with Greenergy. The first project is expected to be operational in early 2007 and production from the second facility is expected during the latter half of 2007. These projects represent a combined investment of over $23 million.

Conventional Oil Pipelines

Inter Pipeline owns four conventional oil pipeline systems in southern Alberta and Saskatchewan. These systems have a combined length of approximately 4,000 kilometres and in 2006 transported 211,900 barrels per day, a 5% increase over 2005 levels.

Our conventional systems continue to generate attractive opportunities for organic investment. In 2006, we commenced construction on two oil facility connection projects on the Central Alberta pipeline system and two gas facility connection projects on the Bow River pipeline. Furthermore, we expanded our relationship with Nexen Marketing through the construction of additional oil blending infrastructure at our Throne and Stettler storage terminals. At Inter Pipeline's storage terminal at Kerrobert, Saskatchewan we contracted to supply oil storage and condensate delivery services to shippers on the nearby Cactus Lake pipeline.

In July 2006, we completed our latest mainline expansion of the Bow River pipeline system. This expansion has allowed us to increase capacity for southbound shipments from Hardisty, Alberta to 36,000 barrels per day. Incremental volumes will help meet growing refinery demand in the northwest United States. Collectively, we invested approximately $14 million on development projects across Inter Pipeline's four conventional oil systems.

Environment, Health and Safety

Safe work practices and strong environmental stewardship remain the focal point of Inter Pipeline's environmental, health and safety programs. Again in 2006, we achieved strong performance in these areas.

Within our Canadian operations we recorded zero lost time accidents involving employees. This achievement is particularly impressive, given the significant number of large-scale construction projects completed across our operations during 2006. Our Cochrane NGL extraction facility surpassed the milestone of eight years without a lost time accident. This exemplary performance is a strong reflection of employee commitment to hazard identification, safe work practices and the proper planning of construction projects.

Inter Pipeline's European operations also advanced our high standards for operational performance. During 2006, all six of our bulk liquid storage terminals in the United Kingdom were recognized by The Royal Society for the Prevention of Accidents. Three of our terminals received Gold Medal awards. The remaining terminals were presented with the President's Award for having received ten or more successive Gold Awards.

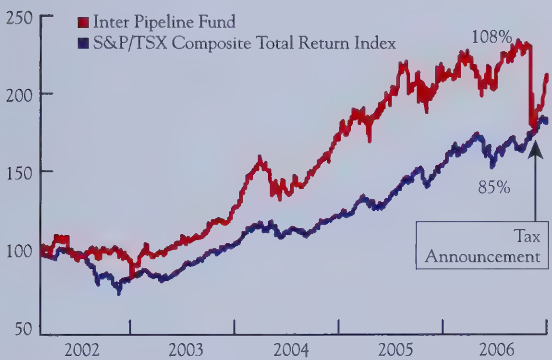
A strong track record of asset integrity and environmental performance is a cornerstone of Inter Pipeline's success as an operator of world-scale energy infrastructure facilities. In this regard, we invested approximately $14 million during 2006 to proactively inspect, repair and enhance our pipeline, NGL and bulk liquid storage assets. Across our operations, we continue to capture opportunities to further reduce flare emissions, eliminate controllable noise occurrences and reduce the use of water.

At Inter Pipeline, we recognize that high standards of operational performance and compliance with the laws and regulations that govern our operations are critical to the long-term profitability and sustainability of our business.

Tax Fairness Plan

While Inter Pipeline experienced record performance in 2006, our accomplishments were somewhat overshadowed by the Conservative government's announcement on October 31st of its proposed Tax Fairness Plan. In the aftermath of this announcement, Inter Pipeline's Class A Limited Partnership units initially dropped by over 20%. By year end, our Class A units had recovered but remain approximately 10% below pre-announcement levels.

5-Year Relative Performance[1]



[1] Includes reinvestment of distributions.

Under its plan, the government proposes to implement a new 31.5% income tax on publicly-traded flow-through entities such as income trusts and limited partnerships. A taxable Canadian investor would be indifferent to the proposed changes on an after-tax basis due to the availability of enhanced dividend tax credits. For existing issuers such as Inter Pipeline Fund, the proposed new tax would be deferred until 2011. On December 15, 2006, the Minister of Finance provided further guidance as to the degree of "normal growth" that would be allowed during the intervening period.

Inter Pipeline has been highly active in advancing its views on this matter directly to the government and indirectly through various industry groups. While the details of the proposed tax legislation have not been finalized, and furthermore have not been enacted into law, Inter Pipeline remains very committed to its existing business model. Irrespective of the proposed tax legislation, Inter Pipeline owns and operates world-scale energy infrastructure assets that generate sustainable, long-term cash flow. In our view, the proposed limitations on "normal growth" would not impede our plans for growth over the next four years. The draft legislation would allow Inter Pipeline to issue over $2 billion in new equity before our business would become taxable prior to 2011. That would allow us to roughly double our existing market capitalization. Furthermore, we understand that our earnings from overseas operations would not be subject to the proposed new tax.

Strategic Outlook

Looking forward, Inter Pipeline intends to maintain its focus on the core principles that have driven our success and growth in the past. We will continue to pursue opportunities to acquire new energy infrastructure assets with strong potential for expansion through organic development investments. We will also remain focused on our track record of strong environmental, health and safety performance. We recognize that our continued success is highly contingent on our ability to integrate, develop and prudently operate large-scale infrastructure assets.

Within our existing lines of business, we intend to set a new record for investment in "organic" development projects during 2007. Inter Pipeline has allocated $82 million toward growth capital projects and an additional $12 million in sustaining capital projects. These investments will primarily involve the further expansion of throughput capacity on the Cold Lake pipeline system, facility enhancements to recover more ethane volume at our NGL extraction plants, and the addition of new biofuel product handling facilities within our European operations.

On March 5, 2007 Inter Pipeline announced that it entered into an agreement to acquire the Corridor Pipeline System (Corridor) from an affiliate of Kinder Morgan Inc. for approximately $760 million. Corridor consists of about 1,000 km of pipeline linking the Athabasca Oil Sands Project's Muskeg River bitumen mining operation near Fort McMurray, Alberta to its Scotford upgrading facility near Edmonton, Alberta. This significant acquisition is subject to certain closing conditions including the waiver or expiry of certain rights of first refusal. Assuming such rights of first refusal are waived or not exercised, it is anticipated that closing of the acquisition will take place in late April 2007.

The pending transaction is highly consistent with Inter Pipeline's strategy to own and operate world-scale energy infrastructure assets with strong developmental potential. Upon successful completion of this acquisition, Inter Pipeline will become the largest oil sands gathering business in Canada. The future addition of Corridor to Inter Pipeline's oil transportation business segment will provide very stable and predictable cash flow under a 25 year ship-or-pay contract with high credit-quality shippers.

As an energy infrastructure business, our fundamentals are inherently tied to the profitability and sustainability of the energy industry. In

this regard, our outlook remains very bullish. The energy commodity price environment remains strong, and our assets are well-positioned to benefit from expected increases in production. Given that the vast majority of our cash flow is derived from fee based and cost of service contracts, we are confident in the long-term sustainability of our business model.

Clearly, the government's recently announced intention to impose a new tax on publicly traded income trusts and limited partnerships has introduced an element of uncertainty in our business. However, as stated earlier, we are confident in our ability to adjust to the evolving landscape. We have developed a well diversified and strong portfolio of assets with long-term growth prospects. We also maintain an investment grade credit rating and our balance sheet is poised to support future growth. Inter Pipeline remains committed to providing our investors with long-term value and our most recent acquisition, the Corridor Pipeline system, demonstrates our ability to deliver on that commitment.

Acknowledgments

Inter Pipeline's significant growth in recent years has placed significant pressure on our employees to ensure the smooth integration of recently acquired businesses, while developing and executing a large inventory of organic development projects. As an organization we have responded to these challenges while generating record results in 2006. I thank each and every one of our employees for your hard work, dedication and commitment throughout the past year. I also would like to thank each of our directors for your ongoing guidance, stewardship and individual efforts in helping drive our many successes.

Finally, on behalf of the entire Inter Pipeline organization, I would like to thank our public unitholders for your support and confidence in our business.

David W. Fesyk
President and Chief Executive Officer
March 12, 2007

Safety, Environment and Community

Operating Inter Pipeline's facilities in a manner that protects the safety of our employees and contractors is a core value at Inter Pipeline. We also want to be recognized as an industry leader in the protection of the environment. In 2006, we achieved zero employee lost time accidents in our Canadian business segments, and realized significant improvements in environmental performance.

Pipeline Operations

Inter Pipeline achieved zero lost time accidents within our conventional oil pipelines and oil sands transportation business segments in 2006, qualifying the pipeline operations team for another Occupational Health & Safety Award from Alberta Human Resources and Development.

Inter Pipeline proactively audits its sites and takes corrective action where necessary. This ensures regulatory compliance and reduces hazardous workplace conditions before they become an incident. In 2006, over 150 facilities were audited, and no high priority issues were identified. Inter Pipeline also performs internal pipeline inspections to verify future pipeline reliability. In 2006, several hundred miles of pipe were internally inspected and no repairs were required.

NGL Extraction

In 2006, Inter Pipeline's NGL extraction business segment completed its eighth consecutive year with zero employee lost time accidents. As well, the environmental impact from reportable flaring events was reduced by 79 percent in 2006 compared to 2005.

To further improve worker and public safety, Inter Pipeline is investing in a new water treatment process at the Cochrane extraction plant that will be complete in early 2007.

Simon Storage

Simon Storage's six bulk liquid and gas storage terminals across the UK won medals at the "Gold" level or higher from The Royal Society for the Prevention of Accidents (RoSPA). Three of Simon's UK terminals received RoSPA's President's Award – the highest award possible – in recognition of at least ten consecutive Gold Awards. Simon's Shannon Terminal in Ireland was again recognized by the National Irish Safety Organisation with an Occupational Safety Award.

Inter Pipeline's bulk liquid storage business segment had no reportable environmental incidents in 2006.

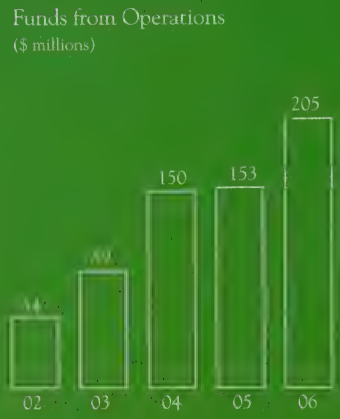
Community Investment

In 2006 Inter Pipeline completed the purchase of a new delivery van for the Women in Need Society.

We're big believers in the communities we work in and have developed unique programs to foster youth development and education. For instance, our Discovery Awards program provides $1,000 bursaries to high school students who wish to pursue a post-secondary education in an industry related field. In 2006, we awarded 19 bursaries in 11 communities in Alberta and Saskatchewan.

We're also helping to improve life for local fish populations. In 2006, Inter Pipeline contributed to the reclamation of Millennium Creek in the town of Cochrane. The creek is a small spring-fed tributary to the Bow River and an important habitat for juvenile and mature wild trout.

Management's Discussion and Analysis



Corporate Objectives vs. Results

1 Develop and expand the existing asset base

In 2006, Inter Pipeline completed its highest capital expenditure program in history by investing over $65 million in growth and sustaining capital projects.

2 Invest within the hydrocarbon value chain

The acquisition of a second western European business, TLG, was completed in 2006 enhancing cash flows from our bulk liquid storage business.

3 Ensure new investments are accretive to cash flow

Our investments in organic growth projects allowed us to increase monthly cash distributions by 7.7% in 2006, the fourth consecutive annual increase in distributions.

4 Safe and reliable operations

A strong focus on safety, asset integrity and reducing environmental impacts has resulted in a reduction of reportable incidents and greater reliability across our business segments.

5 Efficiently manage operating costs

Power hedges purchased for our conventional oil pipeline and NGL extraction businesses resulted in operating cost savings of approximately $5.7 million in 2006.

6 Maintain investment grade credit rating

Inter Pipeline has a long-term corporate credit rating of BBB from Standard & Poor's reflecting our strong balance sheet and conservative capital structure.

Conventional Oil Pipelines

consists of the Bow River, Central Alberta, Mid-Saskatchewan and the Valley pipeline systems. Combined, these systems transported over 211,900 b/d to central and eastern Alberta and southwestern Saskatchewan in 2006.

Oil Sands Transportation

the Cold Lake pipeline system consists of bitumen blend and diluent pipelines and 540,000 barrels of storage which services the Cold Lake oil sands area. This system is the largest transporter of Cold Lake area bitumen, transporting approximately 329,900 b/d in 2006.

NGL Extraction

consists of the Cochrane, Empress II and 50% ownership of Empress V extraction plants located on the TransCanada natural gas transmission system at the western and eastern Alberta export points. In 2006 these facilities processed an average of 4.2 bcf/d of natural gas and an average of 142,100 b/d of natural gas liquids.

Bulk Liquid Storage

consists of nine bulk liquid storage terminals with a combined liquid storage capacity of approximately 8 million barrels. Simon Storage's integrated operations also offer a broad range of complementary services through its bulk liquid trucking, engineering, training and facilities management divisions.

Management's Discussion and Analysis

For the year ended December 31, 2006

The following Management's Discussion and Analysis (MD&A) provides a detailed explanation of Inter Pipeline Fund's (Inter Pipeline) operating results for the three month period and year ended December 31, 2006 as compared to the three month period and year ended December 31, 2005. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and MD&A of Inter Pipeline for the quarterly periods ended March 31, June 30, and September 30, 2006 and 2005, the audited consolidated financial statements and MD&A for the year ended December 31, 2005 and the Annual Information Form (AIF) and other information filed by Inter Pipeline at www.sedar.com.

2006 HIGHLIGHTS

- Annual revenues exceeded $1 billion for the first time
- 2006 payout ratio before sustaining capital* of 78.3%; sustaining capital fully funded by cash from operating activities
- Record funds from operations* of $205.4 million, up 34% over 2005
- Net income of $130.6 million ($0.65 per unit), up $41.3 million or 46% from 2005
- Annualized cash distributions increased by 7.7% to $0.84 per unit from $0.78 per unit, commencing in September, 2006
- Distributed a record $160.8 million to unitholders during the year
- Highest annual throughput volumes achieved on the Cold Lake and conventional pipeline systems by transporting over 540,000 barrels per day (b/d)
- Raised $150 million through a successful public market issue of 15 million Class A units
- Completed acquisition of Tanklager-Gesellschaft mbH (TLG), an independent bulk liquid storage business in Germany, for approximately $38 million

FOURTH QUARTER 2006 HIGHLIGHTS

- Funds from operations increased by 24% to $47.2 million, compared to the same quarter last year
- Quarterly payout ratio before sustaining capital* of 89.7%
- Net income of $28.3 million ($0.14 per unit), up $7.4 million or 35% from the same quarter a year ago
- Cash distributions to unitholders totaled $42.3 million or $0.21 per unit during the quarter
- Conventional volumes increased by 20,300 b/d to 223,100 b/d or 10% over 2005 levels, primarily due to increased Bow River south deliveries to U.S. refining markets
- Announced 2007 organic growth capital expenditure program totaling $82 million

SUBSEQUENT EVENT

- Announced acquisition of the shares of Terasen Pipelines (Corridor) Inc. (Corridor) in March 2007 for cash consideration of approximately $275 million, subject to closing adjustments and certain right of first refusal conditions. Total debt within Corridor at closing, currently estimated to be $785 million, will be assumed as part of this acquisition. The portion of the total debt to be assumed related to the expansion is currently estimated to be $300 million.

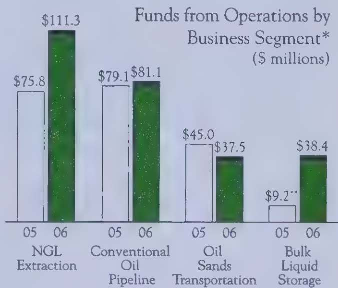
* Please refer to the "Non-GAAP Financial Measures" section.

PERFORMANCE OVERVIEW

Year Ended December 31, 2006

For the year ended December 31, 2006, Inter Pipeline's funds from operations increased $52.4 million, from $153.0 million in 2005 to $205.4 million in 2006. The natural gas liquids (NGL) extraction, conventional oil pipeline, oil sands transportation, and bulk liquid storage businesses contributed $111.3 million, $81.1 million, $37.5 million and $38.4 million of funds from operations, respectively (2005 – $75.8 million, $79.1 million, $45.0 million and $9.2 million, respectively). These contributions to funds from operations were offset by corporate costs of $62.9 million (2005 – $56.1 million).

The increase in funds from operations was primarily due to favourable commodity prices in the NGL extraction business and the acquisition of the entities comprising the bulk liquid storage business in late 2005 and early 2006. For comparative purposes, Inter Pipeline did not acquire the Simon Storage bulk liquid storage business until the fourth quarter of 2005 and the Tanklager-Gesellschaft mbH (TLG) bulk liquid storage business until January 1, 2006. As such, Inter Pipeline recognized only 89 days of the bulk liquid storage business operations in the comparative figures for the year ended December 31, 2005.



* Contributions to funds from operations from the four business segments were offset by corporate costs of $62.9 million (2005 – $56.1 million)

** 89 days of the bulk liquid storage business operations in 2005

In September 2006, Inter Pipeline increased monthly cash distributions by $0.005 or 7.7% per unit for a total of $0.8000 per unit (2005 – $0.7525 per unit) paid to unitholders during the year. Monthly cash distributions of $0.065 per unit were paid for the periods January to August 2006 and $0.07 per unit for the periods September to December 2006. Annualized 2007 cash distributions are estimated to be $0.84 per unit at the current distribution level.

Total cash distributed to unitholders in 2006 increased $23.1 million or 16.8% to $160.8 million compared to the $137.7 million distributed in 2005. The increase in total cash distributed is primarily attributable to the cash distribution increase noted above, and the additional equity issuance of 15.0 million Class A units in January 2006. A 78.3% payout ratio before sustaining capital (83.8% after sustaining capital) of funds from operations was realized in 2006, as compared to 90.0% (94.2% after sustaining capital) realized in 2005.

Inter Pipeline's outstanding long-term debt level, excluding the 10% Convertible Extendible Unsecured Subordinated Debentures (Debentures), decreased by $131.0 million to $674.8 million compared to the $805.8 million outstanding as at December 31, 2005. This decrease was primarily due to the net proceeds of $142.2 million received from the equity offering in January 2006, along with the strong 2006 financial results.

Three Months Ended December 31, 2006

For the fourth quarter ended December 31, 2006, Inter Pipeline's funds from operations increased $9.1 million or 23.8% to $47.2 million, over the quarter ended December 31, 2005. The NGL extraction, conventional oil pipeline, oil sands transportation, and bulk liquid storage businesses contributed $25.6 million, $20.8 million, $8.1 million and $9.9 million to funds from operations, respectively (Q4 2005 – $16.8 million, $20.1 million, $11.2 million and $9.2 million, respectively). These contributions to funds from operations were offset by corporate costs of $17.2 million (Q4 2005 – $19.2 million).

The increase in funds from operations was primarily due to favourable commodity prices in the NGL extraction business and the acquisition of TLG in January 2006. For comparative purposes, Inter Pipeline did not acquire the TLG bulk liquid storage business until January 1, 2006. As such, Inter Pipeline has not recognized any of the TLG bulk liquid storage business operations in the comparative figures for the fourth quarter of 2005.

Total cash distributed in the fourth quarter of 2006 increased $7.3 million or 20.9% to $42.3 million compared to $35.0 million distributed in the quarter ended December 31, 2005. This increase in total cash distributed is primarily attributable to the cash distribution increase noted above and a January 31, 2006 equity issuance of 15.0 million Class A units. An 89.7% payout ratio before sustaining capital (101.7% after sustaining capital) of funds from operations was realized in the fourth quarter of 2006, as compared to 91.8% (101.3% after sustaining capital) realized in the fourth quarter of 2005.

OUTLOOK

Inter Pipeline's four business segments continue to support Inter Pipeline's strategy of providing stable and predictable cash distributions to its unitholders. During 2006, Inter Pipeline expended $65.6 million on capital projects to sustain and grow its existing asset base. Strong performance from all four business segments culminated in a unitholder distribution increase in September 2006 of $0.06 per unit per year, or 7.7%, which raised Inter Pipeline's annualized distribution to $0.84 per unit. This was the largest distribution increase ever announced by Inter Pipeline. For 2007, Inter Pipeline announced an even larger capital expenditure program, which currently involves investing $82 million in growth capital projects and $12 million in sustaining capital projects, all designed to support the ongoing stability and predictability of cash distributions.

The NGL extraction business segment expects to spend growth capital of approximately $15 million in 2007, primarily to enhance ethane production efficiency at the Empress V NGL extraction plant. In addition, Inter Pipeline continues to make progress on its Cochrane Ethane Recovery Project. This $80 million project will replace two older-technology extraction "trains" with a new, state-of-the-art cryogenic unit capable of processing 750 million cubic feet of natural gas per day. Inter Pipeline plans to incur the bulk of these costs in 2008.

During 2006, the NGL extraction business segment experienced higher than historical frac-spreads at the Cochrane plant, leading to an exceptional financial year for this segment, and Inter Pipeline generally. Although there is no certainty that frac-spreads will continue at these higher than historical levels over the long run, Inter Pipeline has hedged a substantial portion of Cochrane's 2007 NGL production at higher than historical prices. This supports the near-term performance of this business segment.

The conventional oil pipeline business segment continues to experience new third-party connections and increased deliveries into the northwest United States. Inter Pipeline plans to spend approximately $10 million in this business segment on growth capital projects in 2007. Although this business segment continues to experience natural production declines in its traditional oil gathering areas, increased southbound deliveries on the Bow River pipeline system into the northwest United States have more than offset these declines. For example, in 2006 total throughput volumes on Inter Pipeline's conventional oil pipeline systems increased to 211,900 b/d, a 5.2% increase over 2005 volumes. Inter Pipeline continues to view the conventional oil pipeline business as a strong and stable cash flow provider into the foreseeable future.

Growth in the oil sands transportation business segment is the largest component of the 2007 capital program, as the founding shippers on the Cold Lake pipeline system continue to increase oil sands production in the Cold Lake region. Approximately $30 million is forecast to be spent on this segment in 2007. By the end of 2008, it is expected that capacity on the Cold Lake pipeline system will increase by almost 30% to 560,000 b/d from the current 435,000 b/d. The additional cash flow that Inter Pipeline will receive from additional throughput volumes associated with this capacity and production increase will serve to enhance the stability and predictability of Inter Pipeline's overall cash flow.

Inter Pipeline's bulk liquid storage business segment continues to grow its asset base, primarily in the emerging biofuels sector. In 2007, $27 million is planned to be invested in growing this business, the second highest growth capital expenditures of Inter Pipeline's four business segments. A key project in 2007, accounting for approximately $13 million, involves the refurbishment and construction of storage facilities at the Immingham West terminal in the United Kingdom (UK) to handle and store biodiesel products. These facilities will accommodate the storage requirements of a second biodiesel plant to be constructed by Greenergy Biofuels Limited (Greenergy). This is the second major biodiesel project that the bulk liquid storage business has undertaken with Greenergy.

Progress continues on the first Greenergy project and storage facilities are gradually coming into service. The overall project is expected to be commissioned in the first quarter of 2007.

In summary, the continuance of Inter Pipeline's strong organic growth program bodes well for the stability and predictability of the cash distributions. The assets underpinning the four business segments generally continue to experience growth in capacity, production and throughput.

On October 31, 2006, the Government of Canada announced the Tax Fairness Plan (Plan) which upon implementation would negatively impact most flow-through entities (FTEs) in Canada, including Inter Pipeline. This government initiative, as currently contemplated, would result in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 31.5% applied against taxable income. If enacted as currently described, the resultant cash available for distribution would be reduced by an amount approximating the new income tax payable. The impact on cash available for distribution will not be known until that time. It should be recognized that for a taxable Inter Pipeline investor, the intent of the Plan is to make the investor tax neutral. Distributions from FTEs will qualify for the dividend tax credit, which will lower the overall tax payable on an assumed lower Inter Pipeline cash distribution. Inter Pipeline investors most impacted by this proposed legislation will therefore be those investors that hold their units in a tax-deferred investment such as a registered retirement savings plan, registered retirement income fund or deferred profit sharing plan. Inter Pipeline units can only be owned by persons who are residents of Canada, or if partnerships, are Canadian partnerships. As such, there are no foreign tax issues impacting Inter Pipeline related to this legislation. Unitholders and prospective investors should consult with their own tax advisors with respect to their particular circumstances.

The Plan proposed a limit on the growth of FTEs tied to the market capitalization of each FTE. The proposal provides that a FTE can only issue new equity in an amount equivalent to the market value of such FTE's equity on October 31, 2006. Therefore, Inter Pipeline would only be able to issue approximately $2.0 billion of new equity to grow its business over the next four years.

The government legislation enacting the Plan is currently in progress and subject to typical reviews and potential adjustments. Inter Pipeline will not make any firm decision on its future business structure until the Plan legislation is enacted and the new rules are finalized and clearly articulated. Inter Pipeline intends to adopt a strategy around the final Plan legislation that will minimize the total amount of new income taxes that will be payable, while maintaining the quality credit profile of Inter Pipeline.

If the Plan were enacted, Inter Pipeline would be required to assess the future income tax impact on its financial statements as of the date the legislation becomes effective, which could result in an immediate material adjustment to its financial statements as of that date.

It is important for investors to recognize that operation of Inter Pipeline's four business segments will not be affected by the Plan. Regardless of the business, or corporate structure in which the assets reside, they will continue to produce similar levels of pre-tax cash flow. As previously mentioned in this "Outlook" section, the four business segments continue to grow and provide stable and predictable cash flows, and management of Inter Pipeline will continue to seek to expand its asset base on behalf of unitholders.

Standard & Poor's continues to maintain an investment grade, long-term corporate credit rating of BBB on Inter Pipeline.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

($ millions, except per unit and % amounts)	Three Months Ended December 31 2006	2005	Year Ended December 31 2006	2005	2004
Revenues					
NGL extraction[1]	$ 186.1	$ 233.8	$ 691.8	$ 724.0	$ 300.3
Conventional oil pipelines	$ 30.7	$ 28.2	$ 116.7	$ 109.9	$ 108.5
Oil sands transportation	$ 14.7	$ 17.2	$ 58.8	$ 62.7	$ 73.3
Bulk liquid storage[2]	$ 43.7	$ 30.4	$ 143.7	$ 30.4	n/a
Net income[1][2][5]	$ 28.3	$ 20.9	$ 130.6	$ 89.3	$ 81.1
Per unit – basic[5]	$ 0.14	$ 0.11	$ 0.65	$ 0.49	$ 0.52
Per unit – diluted[5]	$ 0.14	$ 0.11	$ 0.65	$ 0.48	$ 0.52
Funds from operations[1][2][4][5]	$ 47.2	$ 38.1	$ 205.4	$ 153.0	$ 150.0
Per unit[4][5]	$ 0.24	$ 0.21	$ 1.03	$ 0.84	$ 0.97
Cash distributions[3]	$ 42.3	$ 35.0	$ 160.8	$ 137.7	$ 115.6
Per unit[3]	$ 0.2100	$ 0.1900	$ 0.8000	$ 0.7525	$ 0.7300
Payout ratio before sustaining capital[4][5]	89.7%	91.8%	78.3%	90.0%	77.0%
Payout ratio after sustaining capital[4][5]	101.7%	101.3%	83.8%	94.2%	78.5%
Total assets[1][2]			$ 2,157.1	$ 2,082.4	$ 1,743.0
Long-term debt[1][2][6]			$ 674.8	$ 805.8	$ 530.8
Debentures			$ 11.7	$ 15.9	$ 32.5
Total partners' equity[5][6]			$ 1,198.4	$ 1,033.1	$ 1,064.7
Partnership units outstanding, end of period[6][7]			201.7	184.6	180.1
Total enterprise value[1][2][4][6][7]			$ 2,510.1	$ 2,676.9	$ 2,213.0

[1] The NGL extraction business was acquired on July 28, 2004. Therefore, the comparable annual 2004 figures include only 157 days of NGL extraction operations and there was a material increase in assets and debt outstanding.

[2] The Simon Storage bulk liquid storage business was acquired on October 4, 2005 and TLG on January 1, 2006; therefore, the comparable 2005 annual figures include only 89 days of bulk liquid storage operations. The acquisitions were financed by debt, resulting in an increase in assets and debt outstanding.

[3] Cash distributions are calculated based on the number of units outstanding at each record date.

[4] Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

[5] Restated 2004 comparative periods due to a change in accounting policy regarding the Unit Incentive Option Plan (UIOP).

[6] Inter Pipeline issued 15.0 million class A units on January 31, 2006 for gross proceeds of $150.0 million. The net proceeds of $142.2 million were used to reduce debt. Inter Pipeline issued 38.0 million Class A units on July 28, 2004 for gross proceeds of $271.6 million.

[7] Following the Federal Government's Tax Fairness Plan on October 31, 2006, the trading value per class A unit on the Toronto Stock Exchange fell from $10.00 on October 31, 2006 to a year-end closing value of $9.04. As a result, the enterprise value decreased materially in this period. This decrease was offset by the issuance of 15.0 million class A units on January 31, 2006.

RESULTS OF OPERATIONS
NGL Extraction Business Segment

Three Months Ended December 31

	2006				2005			
	Mmcf/d	(000s b/d)			Mmcf/d	(000s b/d)		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,868	49.9	27.6	77.5	1,645	46.6	25.7	72.3
Empress V (100% basis)	992	14.9	11.1	26.0	1,037	16.4	10.2	26.6
Empress II	1,318	24.1	14.9	39.0	1,281	23.1	12.2	35.3
Total	4,178	88.9	53.6	142.5	3,963	86.1	48.1	134.2

Year Ended December 31

	2006				2005			
	Mmcf/d	(000s b/d)			Mmcf/d	(000s b/d)		
	Throughput	Ethane	Propane plus	Total	Throughput	Ethane	Propane plus	Total
Cochrane	1,714	48.1	25.4	73.5	1,540	46.3	24.4	70.7
Empress V (100% basis)	990	14.5	11.2	25.7	1,044	17.6	11.3	28.9
Empress II	1,455	26.6	16.3	42.9	1,465	27.9	15.9	43.8
Total	4,159	89.2	52.9	142.1	4,049	91.8	51.6	143.4

	Three Months Ended December 31			Year Ended December 31		
($ millions, except % amounts)	2006	2005	% change	2006	2005	% change
Revenue	$ 186.1	$ 233.8	(20.4)	$ 691.8	$ 724.0	(4.4)
Shrinkage gas	$ 110.9	$ 172.0	(35.5)	$ 422.8	$ 504.8	(16.2)
Operating expenses	$ 49.7	$ 45.0	10.4	$ 157.8	$ 143.4	10.0
Capital expenditures						
Growth[1]	$ 2.6	$ 1.7		$ 7.1	$ 2.2	
Sustaining[1]	1.7	0.3		2.7	1.4	
Total capital expenditures	$ 4.3	$ 2.0		$ 9.8	$ 3.6	

[1] Please refer to the "Non-GAAP Financial Measures" section.

Volumes

The three NGL extraction plants processed a combined 4,178 million cubic feet per day (Mmcf/d) for the quarter ended December 31, 2006, which is higher than 3,963 Mmcf/d for the three month period ended December 31, 2005. As a result, the NGL extraction facilities produced an average of 142,500 b/d in the fourth quarter of 2006, which is 8,300 b/d higher than the average of 134,200 b/d produced during the fourth quarter of 2005. The increase in volumes is primarily due to the increase in throughput at the Cochrane facility as utility companies in the western United States took advantage of relatively low natural gas prices to increase market-area natural gas storage levels.

On an annual basis, the three NGL extraction plants processed a combined 4,159 Mmcf/d of natural gas in 2006, which is consistent with the 4,049 Mmcf/d processed in 2005. Overall production at Inter Pipeline's three NGL extraction facilities decreased approximately 1,300 b/d to an average of 142,100 b/d in 2006, compared to 143,400 b/d in 2005. Increased NGL production volumes at the Cochrane facility, due to a warmer than usual summer in the western United States, were offset by lower NGL production volumes at the Empress V facility due to plant maintenance outages and a lower ethane production allocation.

Revenue

Fourth quarter and annual revenues declined $47.7 million and $32.2 million respectively, when compared to the same periods in 2005. This is primarily a result of lower average natural gas prices in 2006 relative to 2005. Inter Pipeline recovers a significant portion of its shrinkage and fuel gas costs through cost-of-service or fee-based product sale contracts. As the cost of purchasing shrinkage and fuel gas is reduced, the revenue associated with recovering these costs from product buyers is also reduced. The decrease in revenue was offset by lower shrinkage gas costs as discussed in the following "Shrinkage and Operating Expenses" section.

Inter Pipeline hedged a portion of the cash flow related to propane plus volumes at the Cochrane extraction plant. These volumes are subject to commodity price fluctuations also referred to as frac-spread. Market frac-spread, or gross margin, is defined as the difference between the weighted average propane plus price at Mont Belvieu, Texas and the cost of AECO natural gas purchased for shrinkage make-up.

For the year ended December 31, 2006, the actual market frac-spread was $0.594 Cdn$/US gallon, or approximately 56% higher than the $0.381 Cdn$/US gallon realized in 2005. Based on the average monthly Bank of Canada US$/Cdn$ rate, the actual market frac-spread was $0.526 US$/US gallon (2005 – $0.314 US$/US gallon). During the three months ended December 31, 2006, the actual market frac-spread was $0.559 Cdn$/US gallon (Q4 2005 – $0.227 Cdn$/US gallon). Based on the average monthly Bank of Canada US$/Cdn$ rate, the actual market frac-spread was $0.491 US$/US gallon (Q4 2005 – $0.194 US$/US gallon).

The frac-spread realized by Inter Pipeline during the year was $0.518 Cdn$/US gallon (2005 – $0.332 Cdn$/US gallon) or $0.458 US$/US gallon (2005 – $0.274 US$/US gallon), based on the average monthly Bank of Canada Cdn$/US$ rate. This realized price is significantly higher than the 15-year historical simple average market frac-spread to December 31, 2006 of $0.246 US$/US gallon.

The frac-spread realized by Inter Pipeline during the fourth quarter, including hedged and unhedged production, was $0.451 Cdn$/US gallon (Q4 2005 – $0.263 Cdn$/US gallon) or $0.396 US$/US gallon (Q4 2005 – $0.224 US$/US gallon), based on the average monthly Bank of Canada Cdn$/US$ rate.

See the "FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS" section for further descriptions of the hedged frac-spreads as at December 31, 2006.

Historical Realized Frac Spread
(US$/US gallon)

*IPF realized frac spread

Shrinkage and Operating Expenses

Shrinkage gas expenses decreased $61.1 million and $82.0 million in the fourth quarter and year ended December 31, 2006 respectively, compared to the same periods in 2005. Shrinkage gas represents natural gas bought by Inter Pipeline to replace the heat content of the liquids extracted from the natural gas processed at the NGL extraction plants. The decrease in cost is directly associated with the decreased price of Alberta natural gas used at the NGL extraction plants. The price for shrinkage gas is based on a combination of daily and monthly index AECO prices for natural gas. The weighted average monthly AECO price was $6.62 per gigajoule (GJ) in 2006 (Q4 2006 – $6.03 per GJ) which is approximately 18% lower than the weighted average price of $8.05 per GJ in the year ended December 31, 2005 (Q4 2005 – $11.07 per GJ).

Fuel and power costs, included in operating costs, were $125.1 million in 2006 (Q4 2006 – $41.3 million) compared to $111.3 million for the year ended December 31, 2005 (Q4 2005 – $37.5 million). The increase in costs is primarily due to increased power prices for electricity consumed at all three NGL extraction plants. The average Alberta Power Pool price for 2006 was $80.77 per megawatt hour (MWh) as compared to $70.36 per MWh in the year ended December 31, 2005. The average Alberta Power Pool price for the quarter ended 2006 was $116.94 per MWh as compared to $116.51 per MWh in the year ended December 31, 2005.

Capital Expenditures

Growth capital expenditures in the NGL extraction business segment totaled approximately $7.1 million for 2006. The majority of these expenditures, approximately $4.4 million, were related to ethane production optimization projects at the Cochrane facility.

Conventional Oil Pipeline Business Segment

	Three Months Ended December 31			Year Ended December 31		
Volumes (000s b/d)	2006	2005	% change	2006	2005	% change
Bow River	150.6	137.8	9.3	144.2	136.6	5.6
Central/Valley/ Mid-Saskatchewan	72.5	65.1	11.4	67.7	64.8	4.5
	223.1	202.9	10.0	211.9	201.4	5.2
($ millions, except per barrel and % amounts)						
Revenue	$ 30.7	$ 28.2	8.9	$ 116.7	$ 109.9	6.2
Operating expenses	$ 10.0	$ 9.2	8.7	$ 36.8	$ 32.3	13.9
Revenue per barrel	$ 1.49	$ 1.51	(1.3)	$ 1.51	$ 1.49	1.3
Capital expenditures						
Growth[1]	$ 1.6	$ 6.3		$ 13.9	$ 11.4	
Sustaining[1]	0.4	0.5		1.8	2.5	
Total capital expenditures	$ 2.0	$ 6.8		$ 15.7	$ 13.9	

(1) Please refer to the "Non-GAAP Financial Measures" section.

Volumes

Volumes in 2006 were approximately 10,500 b/d (Q4 2006 – 20,200 b/d) higher than in the comparable period of 2005. In the fourth quarter of 2006, the increase in Hardisty south volumes resulting from the recently expanded Bow River system (an increase of 16,800 b/d, or 97.1%, to 34,100 b/d) and new Cactus Lake interconnection facilities (new volumes of approximately 10,600 b/d) more than offset the natural volume declines.

Revenue

The $6.8 million (Q4 2006 – $2.5 million) increase in revenues was primarily the result of the volume increases described above, mainline toll increases and revenues earned from a Storage and Marketing Agreement with Nexen Marketing. Mainline toll increases averaged 6.0% and 7.5% effective on January 1 and July 1, 2006, respectively. Mainline toll increases also averaged 6% effective on January 1, 2007.

Operating Expenses

The $4.5 million increase in 2006 operating expenses is primarily due to increases in power ($1.3 million), employee related ($1.5 million) and other routine operating costs ($1.7 million). The $0.8 million increase in the fourth quarter of 2006 primarily related to employee related costs.

The average Alberta market power price for 2006 was $80.77 per MWh compared to $70.36 per MWh in the comparable period of 2005. The impact of higher Alberta market power prices, increased transportation charges and increased consumption were partially offset by Inter Pipeline's conventional pipeline system power hedging program. The hedging program fixed 5.0 megawatts (MW) of power at an average price of $49.50 per MWh throughout 2006 (2005 – 5.0 MW of power at an average price of $46.95 per MWh).

Capital Expenditures

The majority of the 2006 capital expenditures in the conventional oil pipeline segment relate to the previously announced Bow River south expansion. This project increased the southbound capacity of the Bow River system from Hardisty, Alberta to refining markets in the northwest United States to approximately 36,000 b/d from 7,000 b/d.

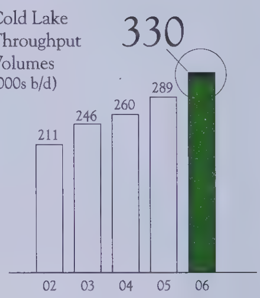
Oil Sands Transportation Business Segment

	Three Months Ended December 31			Year Ended December 31		
(000s b/d)	2006	2005	% change	2006	2005	% change
Volumes (100% basis)	337.6	306.8	10.0	329.9	289.1	14.1
($ millions, except % amounts, 85% basis)						
Revenue	$ 14.7	$ 17.2	(14.5)	$ 58.8	$ 62.7	(6.2)
Operating expenses	$ 6.6	$ 6.0	10.0	$ 21.3	$ 17.7	20.3
Capital expenditures						
Growth[1]	$ 6.0	$ 0.2		$ 16.9	$ 0.2	
Sustaining[1]	0.2	–		0.2	0.2	
Total capital expenditures	$ 6.2	$ 0.2		$ 17.1	$ 0.4	

[1] Please refer to the "Non-GAAP Financial Measures" section.

Volumes

Total volumes (100% basis) on the Cold Lake pipeline system increased by 40,800 b/d (Q4 2006 – 30,800 b/d) in 2006 over the comparable period in 2005. The increase is the result of the continued development by the founding shippers of their respective Cold Lake oil sands projects.



Volumes on a 100% basis

Revenue

The $3.9 million decrease in revenue in 2006 and $2.5 million decrease in the fourth quarter of 2006 compared to the same periods in the prior year are primarily a result of a contractual reduction in capital fees payable per barrel that became effective January 1, 2006. These decreases were partially offset by revenue from a Cold Lake expansion project and other sources. The expansion project and change in volumes contributed $1.9 million in revenue on an annual basis. An increase in recoverable operating expenses increased overall 2006 revenue by $3.2 million. These increases were offset by a contracted capital fee reduction of approximately $9.0 million when compared to 2005.

The terms of the Cold Lake Transportation Services Agreement (Cold Lake TSA) provide for an annual minimum ship-or-pay commitment of $27.1 million ($31.9 million – 100% basis) in 2006 which increases to approximately $27.8 million ($32.7 million – 100% basis) annually to the end of December 2011.

Operating Expenses

The $3.6 million (Q4 2006 – $0.6 million) increase in Cold Lake operating expenses for the year ended December 31, 2006 was primarily due to a $3.1 million increase in fuel and power costs attributable to power price and transmission charge increases and a $0.5 million increase in other routine operating expenses. Unlike the conventional oil pipeline system, the Cold Lake pipeline system's power costs are not hedged, as these costs and the majority of operating expenses are recovered from the shippers. The fuel, power and operating cost recoveries are recorded as revenue.

The 2006 fourth quarter Cold Lake pipeline system operating costs were $0.6 million higher than the comparable 2005 operating costs primarily due to increases in fuel and power costs.

Capital Expenditures

The majority of capital expenditures incurred in the oil sands transportation business were related to the engineering, procurement and construction on expansion projects at the Foster Creek and Wolf Lake pump stations during the fourth quarter.

The Terasen Pipelines (Corridor) Inc. Acquisition

On March 5, 2007, Inter Pipeline announced that it entered into an agreement to acquire the Corridor pipeline system and work-in-progress related to the Corridor capacity expansion project. This acquisition will be undertaken through the purchase of 100% of the issued and outstanding share capital from Terasen Inc., for cash consideration of approximately $275 million, subject to closing adjustments. Funding for the acquisition will be provided from Inter Pipeline's existing bank credit facilities and the assumption of existing operating and expansion debt held within Corridor, currently estimated to be $785 million.

The Corridor acquisition is subject to certain closing conditions including the waiver or expiry of certain rights of first refusal. Assuming such rights of first refusal are waived or not exercised, it is anticipated that closing of the acquisition will take place on or about April 20, 2007.

Description of the Assets

Corridor pipeline system provides the transportation link between the Alberta Oil Sands Project (AOSP) Muskeg River bitumen mining operation near Fort McMurray, Alberta and its Scotford upgrading facility near Edmonton, Alberta. Corridor's assets are comprised of approximately 1,000 kilometres of pipeline and over 2 million barrels of storage. The system has two primary components: the diluted bitumen (Dilbit) system and the Upgrader system.

Inter Pipeline will also assume responsibility for the completion of an estimated $1.8 billion expansion of the Corridor pipeline system. This project, currently under construction, will allow Dilbit capacity on the Corridor pipeline system to increase from its current capacity of 280,000 b/d to approximately 465,000 b/d. The Corridor expansion was requested by the Shippers to accommodate planned increases in AOSP production volumes. Construction activity includes the installation of a new 42-inch diameter pipeline to transport Dilbit between AOSP's Muskeg River mine and the Scotford upgrader. Inter Pipeline expects that expansion capacity on the Corridor pipeline system will be in service in 2010.

Description of the Contract with Shippers

The Corridor pipeline system is the sole transporter of Dilbit and related products produced by the AOSP owned by Shell Canada Energy, Chevron Canada Limited and Western Oil Sands LP (collectively known as the Shippers). Cash flow from the anticipated acquisition is supported by a long-term ship-or-pay contract with the Shippers. The Shippers are bound under the terms of the Firm Service Agreement (FSA), which includes an initial contract term of 25 years, extending through 2028 with options for further extensions. The FSA is based on traditional cost-of-service principles and includes the recovery of all operating costs, depreciation, taxes, debt financing costs, and provides a structured return on the equity component of the rate base.

Bulk Liquid Storage Business Segment

	Three Months Ended December 31			Year Ended December 31		
	2006	2005	% change	2006	2005	% change
Utilization	96.8%	95.0%	1.9	95.3%	95.0%	0.3
($ millions, except % amounts)						
Revenue(1)	$ 43.7	30.4	43.8	$ 143.7	30.4	372.7
Operating expenses(1)	$ 30.0	18.3	63.9	$ 93.3	18.3	409.8
Capital expenditures						
Growth(1)(2)	$ 4.6	1.7		$ 14.1	1.7	
Sustaining(1)(2)	3.3	2.7		8.9	2.7	
Total capital expenditures	$ 7.9	4.4		$ 23.0	4.4	

(1) Inter Pipeline acquired the Simon Storage bulk liquid storage business on October 4, 2005 and TLG on January 1, 2006; therefore the comparative operating results for 2005 reflect 89 days of Simon Storage operations and no operating results for TLG.

(2) Please refer to the "Non-GAAP Financial Measures" section.

Utilization

Utilization rates continued to be strong, both annually and in the fourth quarter, benefiting partially from continued high demand in the biofuels market and across the European terminal network. The Immingham storage terminals continued to benefit from close proximity to, and pipeline links with ConocoPhillips and Total refineries. High demand in the biofuels markets offset a downturn in the demand for chemical storage in the UK.

Revenue

Annual revenue increased $113.3 million when compared to 2005, primarily due to recognizing a full year of bulk liquid storage revenues in 2006 (89 days in 2005). Fourth quarter revenue in 2006 increased approximately $13.3 million compared to 2005 primarily due to an approximate $6.5 million increase in engineering project revenue whereby certain costs are recoverable from customers. Approximately $4.0 million of the increase relates to additional revenues generated by the TLG acquisition in January 2006.

Operating Expenses

Operating expenses in the fourth quarter of 2006 increased approximately $11.7 million compared to 2005 primarily due to a $6.0 million increase in costs related to engineering projects as discussed above and additional TLG expenses of approximately $2.8 million (Q4 2005 – nil). Operating expenses in the fourth quarter are primarily composed of labour costs ($8.9 million), engineering ($6.7 million), tank repair and maintenance costs ($2.4 million), fuel and power costs ($2.8 million) and other routine operating costs.

Capital Expenditures

Approximately $7.6 million of the $14.1 million of growth capital expenditures relate primarily to the Greenergy biofuels project at Immingham, which is expected to be commissioned in 2007. The remaining growth capital expenditures primarily relate to the construction of new tanks and other smaller modification projects.

Corporate *Expenses*

	Three Months Ended December 31			Year Ended December 31		
($ millions, except % amounts)	2006	2005	% change	2006	2005	% change
Depreciation and amortization	$ 17.8	$ 16.8	6.0	$ 69.9	$ 61.4	13.8
Financing charges	9.9	10.6	(6.6)	39.9	35.7	11.8
General and administrative	9.4	7.8	20.5	28.7	17.5	64.0
Management and acquisition fees to General Partner	1.2	3.5	(65.7)	5.4	6.4	(15.6)
Unit incentive options	–	0.1	(100.0)	0.2	0.7	(71.4)
Income taxes	$ 1.4	$ (0.6)	333.3	$ 4.3	$ (0.5)	960.0

Depreciation and Amortization

Increases in Inter Pipeline's depreciation and amortization of its operating and intangible assets are primarily attributable to the addition of the bulk liquid storage intangible assets and property, plant and equipment, which were acquired in late 2005 and early 2006.

Financing Charges

	Three Months Ended December 31		Year Ended December 31	
($ millions)	2006	2005	2006	2005
Credit facility interest expense	$ 3.8	$ 4.4	$ 15.2	$ 9.6
Interest on loan payable to General Partner	5.8	5.8	23.1	23.1
Debentures interest expense	0.3	0.4	1.4	2.2
Cash related financing charges	9.9	10.6	39.7	34.9
Amortization of deferred financing costs	–	–	0.2	0.8
Total financing charges	$ 9.9	$ 10.6	$ 39.9	$ 35.7

Short-term interest rates for the year ranged from a weighted average bankers' acceptance rate, including stamping fees, of 4.77% to a weighted average prime rate of 5.39% (2005 – 3.64% for bankers' acceptances, including stamping fees, and 4.42% for prime rate). The weighted average principal outstanding on the credit facilities was $299.3 million for 2006 (2005 – $197.2 million). The increase in the weighted average principal balance outstanding was related to the use of debt to acquire the entities comprising the bulk liquid storage businesses in October 2005 and January 2006, offset by the $142.2 million net funds raised in the January 2006 Class A unit equity offering.

Short-term interest rates for the fourth quarter of 2006 ranged from a weighted average bankers' acceptance rate, including stamping fees, of 4.92% to a weighted average prime rate of 6.0% (Q4 2005 – 3.82% for bankers' acceptances, including stamping fees, and 4.86% for prime rate). The weighted average principal outstanding on the credit facilities was $298.2 million for 2006 (Q4 2005 – $394.4 million).

Interest expense on the $379.8 million loan payable to Pipeline Management Inc., Inter Pipeline's General Partner, is consistent with the same periods in 2005 due to the fixed rate of interest on the loan and no change in the principal balance during the period.

General and Administrative

Approximately $8.0 million of the $11.2 million increase in general and administrative expenses during the year ended December 31, 2006 is primarily attributable to the general and administrative costs associated with the acquisition of the bulk liquid storage businesses. The remaining $3.2 million increase in general and administrative expenses relates to Canadian operations, with $1.8 million included for a new Long-Term Incentive Plan (LTIP). Please see NEW ACCOUNTING POLICIES – Long-Term Incentive Plan for further information.

Management and Acquisition Fees

The General Partner was paid a management fee equivalent to 2% of "Operating Cash," as defined in the Limited Partnership Agreement (LPA).

Acquisition fees of $0.4 million related to the acquisition of TLG were paid in the first quarter of 2006 compared to $2.5 million paid in the fourth quarter of 2005.

Unit Incentive Options

Inter Pipeline's policy for amortizing the fair value of the options from the date of grant results in larger amounts being amortized in the early years of the vesting period such that they are fully amortized in the year the unit incentive options (Options) are fully vested. There have been no new Options issued in 2006 (2005 – 0.2 million).

Income Taxes

Inter Pipeline is a Canadian limited partnership and therefore, under current legislation, is not a taxable entity. Certain of Inter Pipeline's subsidiaries are taxable entities in Canada and in Europe. The current and future tax expenses reported in the consolidated financial statements are the expenses of those subsidiaries.

Future income tax expense of $2.8 million (2005 – $0.5 million recovery) primarily represents the change in the difference between the tax value and the accounting book value of the acquired bulk liquid storage assets and liabilities in the period, multiplied by the statutory future income tax rate.

SUMMARY OF QUARTERLY RESULTS

($ millions, except per unit and % amounts)	2005 First Quarter	2005 Second Quarter	2005 Third Quarter	2005 Fourth Quarter[2]	2006 First Quarter	2006 Second Quarter	2006 Third Quarter	2006 Fourth Quarter
Revenue								
NGL extraction	$ 170.5	$ 144.8	$ 174.8	$ 233.8	$ 195.5	$ 133.0	$ 177.1	$ 186.1
Conventional oil pipeline[1]	$ 27.1	$ 26.5	$ 28.1	$ 28.2	$ 28.7	$ 27.1	$ 30.2	$ 30.7
Oil sands transportation[1]	$ 15.0	$ 15.1	$ 15.4	$ 17.2	$ 13.9	$ 15.3	$ 14.9	$ 14.7
Bulk liquid storage[2]	n/a	n/a	n/a	$ 30.4	$ 31.6	$ 34.3	$ 34.1	$ 43.7
Net income[3]	$ 26.8	$ 17.1	$ 24.5	$ 20.9	$ 29.1	$ 30.8	$ 42.4	$ 28.3
Per unit – basic[3]	$ 0.15	$ 0.09	$ 0.14	$ 0.11	$ 0.15	$ 0.15	$ 0.21	$ 0.14
Per unit – diluted[3]	$ 0.15	$ 0.09	$ 0.13	$ 0.11	$ 0.15	$ 0.15	$ 0.21	$ 0.14
Funds from operations[3][4]	$ 42.1	$ 32.8	$ 40.0	$ 38.1	$ 47.9	$ 48.8	$ 61.5	$ 47.2
Per unit[3][4]	$ 0.23	$ 0.18	$ 0.22	$ 0.21	$ 0.25	$ 0.24	$ 0.31	$ 0.24
Cash distributions[5]	$ 34.0	$ 34.2	$ 34.4	$ 35.0	$ 39.0	$ 39.2	$ 40.3	$ 42.3
Per unit[5]	$0.1875	$0.1875	$0.1875	$0.1900	$0.1950	$0.1950	$0.2000	$0.2100
Payout ratio before sustaining capital[3][4]	80.8%	104.4%	86.2%	91.8%	81.5%	80.2%	65.4%	89.7%
Payout ratio after sustaining capital[4]	83.9%	107.9%	87.6%	101.3%	84.4%	84.6%	69.7%	101.7%
Partnership units outstanding								
Weighted average	181.0	182.3	183.4	184.2	194.7	200.7	201.2	201.6
End of period	181.9	183.0	183.9	184.6	200.4	200.9	201.4	201.7

(1) Restated for change in segment reporting policy.

(2) The incremental change in the fourth quarter of 2005 is due to the acquisition of the Simon Storage bulk liquid storage business on October 4, 2005.

(3) Restated comparative periods due to change in accounting policy regarding Unit Incentive Option Plan.

(4) Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

(5) Cash distributions are calculated based on the number of units outstanding at each record date.

LIQUIDITY AND CAPITAL RESOURCES

($ millions, except for % amounts)	As at December 31 2006	2005
Cash, cash equivalents and funds held in trust	$ 16.3	55.5
Working capital (deficiency) excluding cash, funds held in trust and current portion of 10% convertible debentures[1]	$ (3.3)	$ (4.8)
Variable rate debt		
Revolving credit facility available	$ 500.0	$ 500.0
Revolving demand loan facility available	20.0	–
Total credit facilities available	520.0	500.0
Less unutilized revolving credit facility	(225.0)	(74.0)
Total outstanding revolving credit facility	295.0	426.0
Less variable rate debt swapped to fixed	(45.0)	(61.0)
Total outstanding variable rate debt	250.0	365.0
Fixed rate long-term debt		
Loan payable to General Partner	379.8	379.8
Debentures	11.7	15.9
Add variable rate debt swapped to fixed	45.0	61.0
Total outstanding fixed rate long-term debt	436.5	456.7
Total debt and Debentures outstanding	$ 686.5	$ 821.7
Senior debt to total capitalization [1]	35.8%	43.4%
Total debt to total capitalization [1]	36.4%	44.3%

[1] Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

Excess cash generated for the year ended December 31, 2006, along with the net proceeds of $142.2 million raised in the January 2006 equity issuance, have been applied to reduce Inter Pipeline's revolving credit facility and partially finance organic growth projects. With this reduction in debt, Inter Pipeline's debt level as at December 31, 2006 is only 36.4% of total debt to capitalization. This represents a strong balance sheet position which, when combined with $225.0 million available under the revolving credit facility, positions Inter Pipeline well for further growth. Of the $674.8 million of total debt outstanding at December 31, 2006 (excluding the Debentures at 10%), $250.0 million or 37.0% was exposed to a period ending variable interest rate of 4.94% with the remaining $424.8 million of fixed term debt with rates from 5.85% to 6.31%.

During the second quarter of 2006, Inter Pipeline established a $20 million revolving demand loan facility with a Canadian Chartered bank for cash management purposes. Amounts borrowed under this facility bear interest at the same applicable rates as the $500 million Unsecured Revolving Credit Facility, while no fees are payable on undrawn amounts.

During the third quarter of 2006, the revolving period term of the Unsecured Revolving Credit Facility was extended from three to five years and certain pricing margins were reduced.

Inter Pipeline's contractual obligations due for the next five years and thereafter are as follows:

		Payments Due by Period			
($ millions)	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Credit facilities	$ 295.0	$ –	$ –	$ 295.0	$ –
Loan payable to General Partner	379.8	–	–	–	379.8
Debentures	11.7	11.7	–	–	–
Operating leases	58.5	6.9	15.3	7.4	28.9
Total obligations	$ 745.0	$ 18.6	$ 15.3	$ 302.4	$ 408.7

Inter Pipeline announced that it plans to invest approximately $82.0 million in organic growth and $12.0 million in sustaining capital projects in 2007.

CASH DISTRIBUTIONS TO UNITHOLDERS

	Three Months Ended December 31		Year Ended December 31	
($ millions, except per unit and % amounts)	2006	2005	2006	2005
Cash provided by operating activities	$ 44.3	$ 33.0	$ 201.6	$ 171.8
Net change in non-cash working capital	2.9	5.1	3.8	(18.8)
Less sustaining capital expenditures[1]	(5.6)	(3.6)	(13.6)	(6.8)
Cash available for distribution[1]	41.6	34.5	191.8	146.2
Less discretionary reserves	0.7	0.5	(31.0)	(8.5)
Cash distributions	$ 42.3	$ 35.0	$ 160.8	$ 137.7
Cash distributions per unit[2]	$ 0.2100	$ 0.1900	$ 0.8000	$ 0.7525
Payout ratio before sustaining capital[1]	89.7%	91.8%	78.3%	90.0%
Payout ratio after sustaining capital[1]	101.7%	101.3%	83.8%	94.2%
Growth capital expenditures[1]	$ 14.8	$ 9.8	$ 52.0	$ 15.5
Sustaining capital expenditures[1]	5.6	3.6	13.6	6.8
Total capital expenditures	$ 20.4	$ 13.4	$ 65.6	$ 22.3

[1] Please refer to the "Non-GAAP Financial Measures" section of this MD&A.

[2] Cash distributions are calculated based on the number of units outstanding at each record date.

It is the policy of the General Partner of Inter Pipeline to provide unitholders with stable cash distributions over time. As a result, not all cash available for distribution is distributed to unitholders. Rather, a portion of cash available for distribution is reserved and reinvested in the business in order to effectively manage its capital, and in particular, debt levels. Annually, the General Partner makes its cash distribution decisions based on the underlying assumptions in each year's annual operating and capital budget and the long-term forecast, consistent with its policy to provide unitholders with stable cash distributions.

"Cash available for distribution" is a non-GAAP financial measure that the General Partner uses in managing Inter Pipeline's business and in assessing future cash requirements that impact the determination of future distributions to unitholders. Inter Pipeline defines cash available for distribution as cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. The impact of net change in non-cash working capital is excluded in the calculation of "Cash available for distribution" primarily to compensate for the seasonality of working capital throughout the year. Certain of Inter Pipeline's revenue contracts dictate an exchange of cash that differs, on a monthly basis, from the generation of revenue. Within a 12 month calendar year there is no variation between revenue generated and cash exchanged. Inter Pipeline therefore excludes the net change in non-cash working capital in its calculation of cash available for distribution to mitigate the quarterly impact this difference has on cash available for distribution. The intent is to not skew the results of Inter Pipeline in any quarter for exchanges of cash, and to focus the results on cash that is generated in any reporting period.

In addition, in determining actual cash distributions, Inter Pipeline applies a discretionary reserve to cash available for distribution, which is designed to ensure stability of distributions over economic and industry cycles and to enable Inter Pipeline to absorb the impact of material one-time events. Therefore, not all cash available for distribution is necessarily distributed to unitholders.

In 2006, the discretionary reserve increased approximately $31.0 million due to the positive 2006 business performance, primarily driven by favourable commodity prices in the NGL extraction business. These prices were more favourable than anticipated and as such, did not form part of Management's 2006 distribution decision. Inter Pipeline did increase its cash distributions by $0.005 per unit from $0.065 per unit to $0.070 per unit in September 2006, and will continue to manage the discretionary reserve and future cash distributions in accordance with its policy of attempting to manage the stability of distributions through industry and economic cycles.

The table below shows Inter Pipeline's cash distributions paid relative to cash provided by operating activities for the periods indicated. See also the "Outlook" and "Business Risks" sections for further information regarding the sustainability of cash distributions.

	Three Months Ended December 31		Year Ended December 31		
($ millions, except per unit and % amounts)	2006	2005	2006	2005	2004
Cash provided by operating activities	$ 44.3	$ 33.0	$ 201.6	$ 171.8	$ 133.8
Cash distributions	(42.3)	(35.0)	(160.8)	(137.7)	(115.6)
Excess (shortfall)	$ 2.0	$ (2.0)	$ 40.8	$ 34.1	$ 18.2

Section 5.2 of the LPA requires that Inter Pipeline make distributions of cash as defined in the LPA (LPA Distributable Cash) on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

OUTSTANDING UNIT DATA

Inter Pipeline's outstanding units as at December 31, 2006 are as follows:

(millions)	Class A	Class B	Total
Units outstanding	201.5	0.2	201.7
Units reserved for issuance upon exercise of vested Unit Incentive Options	2.2	–	2.2
Units reserved for issuance upon conversion of Debentures	2.0	–	2.0

As at February 20, 2007, Inter Pipeline had 201.8 million Class A units outstanding and 0.2 million Class B units outstanding, for a total of 202.0 million units outstanding.

FINANCIAL INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Inter Pipeline utilizes derivative financial instruments to manage its exposure to changes in power costs, interest rates, foreign currencies and commodity prices. A derivative must be designated and effective to be accounted for as a hedge. The gain or loss incurred on these instruments is recognized in income in the same period as the hedged transactions are settled.

Inter Pipeline's risk management policies are intended to minimize the volatility of Inter Pipeline's exposure to commodity price and foreign exchange risk and to assist with stabilizing funds from operations. Inter Pipeline attempts to accomplish this primarily through the use of financial instruments. Inter Pipeline is prohibited from using financial instruments for speculative purposes. All hedging policies are authorized and approved by the Board of Directors through Inter Pipeline's risk management policy.

Inter Pipeline has four types of "off-balance sheet" financial instruments: power price swap agreements, commodity price swap agreements, foreign currency exchange contracts and interest rate swap agreements. All contracts outstanding at December 31, 2006 and 2005 are being accounted for as hedges, except for the heat-rate swap contract which expired on December 31, 2006.

NGL Extraction Business

The following commodity and foreign currency swaps are used collectively to mitigate the frac-spread risk on propane plus volumes at the Cochrane extraction facility. As at December 31, 2006, Inter Pipeline had hedged approximately 45% of forecast propane plus volumes for the period January 1 to December 31, 2007 at the Cochrane NGL extraction plant at an average price of $0.41 Cdn$/US gallon. These average prices would approximate $0.35 US$/US gallon based on the average US$/Cdn$ forward curve as at December 31, 2006.

Commodity Prices

NGL

Inter Pipeline established a hedge program to sell certain quantities of NGL products at fixed prices to third-party counter-parties and buy related quantities of natural gas at fixed prices from third-party counter-parties in order to manage frac-spread risk in its NGL extraction business. Contracts outstanding at December 31, 2006 to hedge NGL revenues fixed NGL prices at average prices for the following periods:

	2006	
Hedge Period:	January to December 2007	
	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	1.000	4,247
Normal butane	1.156	734
Iso butane	1.169	454
Pentanes plus	1.693	363

The mark-to-market value of these contracts resulted in an unrecognized gain of US$7.4 million at December 31, 2006.

There were no contracts outstanding at December 31, 2005.

Natural gas

Contracts outstanding at December 31, 2006 to hedge natural gas purchases fix natural gas prices at average prices for the following periods:

	2006	
Hedge Period:	January to December 2007	
	Average Price (Cdn$/ GJ)	Average Quantity (GJ/day)
AECO natural gas	7.89	22,356

The mark-to-market value of the natural gas contracts at December 31, 2006 resulted in an unrecognized loss of $10.0 million.

There were no contracts outstanding at December 31, 2005.

Foreign Currency

The NGL price swap agreements are calculated based on U.S. dollar prices. As at December 31, 2006, Inter Pipeline had the following foreign exchange contracts outstanding:

	2006	
Hedge Period:	January to December 2007	
	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)
Foreign exchange	0.893	7,971

The mark-to-market value of these contracts at December 31, 2006 resulted in an unrecognized loss of $3.8 million.

There were no contracts outstanding at December 31, 2005.

Power Prices

To manage its electricity price exposure at the Cochrane plant, Inter Pipeline entered into a heat-rate swap contract in 2006 for 14.0 MW of electric power per hour for the period January 1, 2006 to December 31, 2006, at a price equal to 6.90 GJ/MWh, multiplied by the AECO monthly index price. These contracts were not accounted for as hedges.

Conventional Oil Pipeline Business

Power Prices

Inter Pipeline entered into the following electricity price swap agreements:

	2006		2005	
Hedge Period	Average Price (Cdn$/MWh)	Average Quantity (MW)	Average Price (Cdn$/MWh)	Average Quantity (MW)
2006	–	–	49.50	5.0
2007	52.75	5.0	52.75	5.0
2008	54.00	2.5	54.00	2.5

The mark-to-market value of these contracts at December 31, 2006 is an unrecognized gain of $1.3 million. At December 31, 2005, the mark-to-market value of these contracts resulted in an unrecognized gain of $1.7 million.

Corporate

Interest Rates

The outstanding debt at December 31, 2006 is subject to a continuing swap agreement, in which the floating rate bank debt has been exchanged for an average fixed rate as follows:

	2006		2005	
Maturity Date	Fixed Rate per Annum (excluding applicable margin)	Notional Balance (Cdn$)	Fixed Rate per Annum (excluding applicable margin)	Notional Balance (Cdn$)
September 30, 2006	–	–	5.41%	15.0
December 30, 2011	6.30%	30.0	6.30%	31.0
December 31, 2011	6.31%	15.0	6.31%	15.0

The fair market value of the remaining interest rate swap agreements aggregates to an unrecognized loss of $4.0 million at December 31, 2006 compared to an unrecognized loss of $5.1 million at December 31, 2005. Two interest rate swaps outstanding, totaling $45.0 million, are set to expire in December 2011. The notional principal balance of the $30.0 million interest rate swap is reduced by $1.0 million on December 31 of each year for the term of the arrangement.

TRANSACTIONS WITH RELATED PARTIES

No revenue was earned from related parties for the three month period and year ended December 31, 2006 and 2005.

Upon acquisition of the General Partner in 2002, Pipeline Assets Corp. (PAC), the sole shareholder of the General Partner, assumed the obligations of the former general partner of Inter Pipeline under a support agreement. The support agreement obligates the affiliates controlled by PAC to provide certain personnel and services if requested by the General Partner, to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts have been paid under the terms of the support agreement since PAC acquired its interests in the General Partner.

The General Partner's 0.1% interest in Inter Pipeline, represented by Class B units, is controlled by PAC. The General Partner is a wholly-owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied, in part, to the continuing employment or service as a director or officer of the General Partner. These certain officers and directors of the General Partner received a total of $0.7 million in dividends during the year from PAC pursuant to their non-voting shares (2005 – $0.7 million).

Management fees of $1.2 million (Q4 2005 – $1.0 million) were earned by the General Partner in the quarter ended December 31, 2006. Similarly, management fees of $5.1 million were earned by the General Partner in the year ended December 31, 2006 (2005 – $3.9 million). There were no acquisition fees paid (Q4 2005 – $2.5 million) in the three month period ended December 31, 2006. Acquisition fees of $0.4 million were paid to the General Partner in 2006 (2005 – $2.5 million).

Inter Pipeline entered into a loan agreement with the General Partner for $379.8 million. At December 31, 2006, interest payable to the General Partner on the loan was $4.1 million (2005 – $4.1 million). The General Partner earned $0.2 million from Inter Pipeline in interest income during the year (2005 – $0.2 million), on a net basis, after paying interest expense to the ultimate noteholders.

Amounts due to/from the General Partner and its affiliates related to these services are non-interest bearing and have no fixed repayment terms with the exception of the loan agreement with the General Partner. At December 31, 2006, there were amounts owed to the General Partner by Inter Pipeline of $0.4 million (December 31, 2005 – $0.8 million).

EVALUATION OF EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer and the Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure.

As at December 31, 2006, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of Inter Pipeline's disclosure controls and procedures as defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2006.

EVALUATION OF DESIGN OF INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of our financial reporting and compliance with Canadian generally accepted accounting principles (GAAP) in Inter Pipeline's consolidated financial statements.

As at December 31, 2006, Inter Pipeline's management, including the President and Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design of Inter Pipeline's internal controls over financial reporting controls and procedures as defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design of these internal controls and procedures was effective as of December 31, 2006.

Management has made no material changes to Inter Pipeline's internal controls over financial reporting during the fourth quarter of the 2006 fiscal year.

CRITICAL ACCOUNTING ESTIMATES

The preparation of Inter Pipeline's Consolidated Financial Statements requires management to make critical and complex judgements, estimates and assumptions about future events, when applying GAAP, that have a significant impact on the financial results reported. These judgements, estimates, and assumptions are subject to change as future events occur or new information becomes available. Readers should also refer to Note 1 of the Consolidated Financial Statements for a list of Inter Pipeline's significant accounting policies.

Intangible Assets

The Cold Lake TSA intangible asset is the estimated value, using a discounted cash flow analysis, of the shipping agreements entered into with the founding shippers on the Cold Lake pipeline system as valued on January 2, 2003. Although the ship-or-pay portion of the Cold Lake TSA expires on December 31, 2011, the term of the Cold Lake TSA extends until the Cold Lake LP gives notice that it forecasts it will earn less than $1 million of capital fees in the year. After December 31, 2011 the founding shippers may contract with a third party to transport their dedicated petroleum after giving the Cold Lake LP notice of at least 20 months prior to the effective date and meeting certain conditions. The Cold Lake LP has the right to match any new service offer from a third party. Therefore, this intangible asset is being amortized on a straight-line basis over the estimated service life of 30 years of the Cold Lake LP's property, plant and equipment to which the Cold Lake TSA relates, as management believes it is likely the contracts will be renewed into the future. Should the useful life of the Cold Lake pipeline system assets change or the likelihood of the renewal of the Cold Lake TSA change, the amortization of the remaining balance would change accordingly.

The NGL extraction business customer contracts intangible asset represents the estimated value of the contracts as at July 28, 2004 when the NGL extraction business was acquired. Although the contracts expire over a period ranging from five years to 20 years as at the date of acquisition, this intangible asset is being amortized over the estimated useful life of 30 years of the extraction facilities as management believes it is likely the contracts will be renewed into the future. Should the useful life of the extraction facilities assets change, or the likelihood of the renewal of the customer contracts change, the amortization of the remaining balance would change accordingly.

The bulk liquid storage business intangible asset represents the estimated value of the customer contracts, customer relationships and trade name as at October 4, 2005 when the bulk liquid storage business was first acquired. This intangible asset is being amortized over 30 years, as management believes it is likely the contracts will be renewed into the future. The estimated useful life of the contracts ranges from 20 to 30 years. Should the useful life of the bulk liquid storage facilities assets change or the likelihood of the renewal of the customer contracts change the amortization of the remaining balance would change accordingly.

Property, Plant and Equipment (PP&E)

Included in the net book value of PP&E are estimates of the life of the assets, depreciation methods and whether or not an impairment in their value has occurred. Due to the value of the assets being depreciated, the resulting depreciation is a material amount in determining net income of Inter Pipeline.

Both the Cold Lake pipeline system PP&E and the NGL extraction business PP&E are being depreciated on a straight-line basis over 30 years, consistent with their respective intangible assets. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

The bulk liquid storage business PP&E is being depreciated on a straight-line basis over 30 years. Although management believes the asset life could exceed 30 years as is typical with these types of assets, management felt 30 years to be a conservative time period.

Asset Retirement Obligation

The accounting for asset retirement obligations represents the legal obligation associated with the retirement of a tangible long-lived asset resulting from the acquisition, construction or development and/or the normal operation of this long-lived asset. The retirement of a long-lived asset includes its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling. The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, an amount equal to the discounted asset retirement cost is capitalized as part of the cost of the related long-lived asset and depreciated over the asset's useful life.

The PP&E of the conventional oil pipeline and oil sands transportation businesses consist primarily of underground pipelines and above-ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded at that time. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline, to removal of the pipeline and reclamation of the right-of-way.

The PP&E of the NGL extraction and the bulk liquid storage businesses consist mainly of three extraction plants and nine storage facilities, respectively. Inter Pipeline's asset retirement obligation with respect to these assets represents the net present value of the expected cost to be incurred upon the termination of operations and closure of these active facilities. The original discounted amounts of $19.0 million (extraction) and $1.5 million (storage) will be accreted over time at rates of 6.1% and 7.8% per annum, respectively, to their estimated future values of $185.7 million and $20.7 million, respectively.

Environmental Liabilities

Included in accrued liabilities is an amount for future environmental liabilities on an undiscounted basis. Management has identified a number of environmental projects that Inter Pipeline is obligated to remediate in the future. An accrual must be made when an obligation exists, and the entity should make estimates using current regulations and technology. Therefore, an undiscounted amount has been accrued in these consolidated financial statements using management's best knowledge of sites requiring remediation and the plans that would be put in place to clean up these sites. The actual cash outlay to complete the remediation plans could take place over a time period that may be in excess of 20 years.

Unit Incentive Options

Under Inter Pipeline's UIOP, options to purchase Class A units may be granted to directors, officers, employees, and consultants of the General Partner. Options issued are accounted for in accordance with the fair value method of accounting for unit incentive options. As such the fair value of each unit is determined as at the date of grant using a binomial pricing model and is then amortized as an expense over the vesting period.

Goodwill

Goodwill, which was created upon the acquisition of Simon Storage and TLG, represents the excess of the purchase price over the fair value of the net identifiable assets of operations acquired. Goodwill is carried at initial cost less write-down for impairment. If the carrying value of the bulk liquid storage business exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair market value. During each fiscal year and as economic events dictate, management reviews the valuation of the goodwill, taking into consideration any events or circumstances which might have impaired the fair value. Inter Pipeline intends to assess the fair value of this goodwill amount for impairment at least annually by discounting the projected future cash flows generated by these assets at Inter Pipeline's cost of capital. If it is determined that the fair value of the future cash flows is less than the book value of the assets at the time of assessment, an impairment amount will be determined by deducting the fair value of the cash flows from the book values and applying it against the book balance of goodwill. The fair value of the underlying assets and liabilities was assessed under the standard and it was determined there was no impairment of goodwill.

Obligations Relating to Employee Pension Plans

Inter Pipeline provides retirement benefits for its United Kingdom, Ireland and German employees under three separate defined benefit plans. The defined benefit plans provide benefits that are based on a combination of years of service and final pensionable salary. Inter Pipeline's policy regarding the defined benefit plans is to fund the amount that is required by the governing legislation. Independent actuaries perform the required calculations to determine pension expense in accordance with GAAP. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liabilities related to the plans. The actuarial assumptions used may differ from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may affect the net pension expense and liability recorded.

NEW ACCOUNTING POLICIES

Future

Financial Instruments, Hedges and Comprehensive Income

The Canadian Institute of Chartered Accountants (CICA) issued the following three new accounting standards. For publicly accountable entities, such as Inter Pipeline, these sections became effective January 1, 2007:

- Section 3855 Financial Instruments – Recognition and Measurement;
- Section 3865 Hedges; and
- Section 1530 Comprehensive Income.

As a result of these new standards, a significant number of other handbook sections were also amended to ensure consistency with the new recommendations.

Essentially, all financial instruments, including derivatives, are to be included in an entity's balance sheet and measured at fair value or under certain circumstances at cost or amortized cost. The standard also addresses when gains and/or losses as a result of the change in fair values are to be recognized on the income statement or included in comprehensive income.

Hedge accounting is optional. If hedge accounting is to be applied, a hedge relationship must meet all the requirements for hedge accounting at inception and throughout the term of the hedge. With regard to fair value hedges, the gain or loss on both the hedged item and the hedging items are recognized in net income. On a cash flow hedge, the effective portion of the gain or loss is recognized immediately in comprehensive income. It is released to net income at the same time the hedged item impacts net income. The portion of the gain or loss determined to be ineffective is recognized in net income immediately.

Comprehensive income corresponds to the variation in an entity's net assets resulting from transactions, events and circumstances outside the entity's control. The main components generally include unrealized foreign currency translation adjustments arising from self-sustaining foreign operations and fair value adjustments of the effective portion of hedging instruments. The amounts included in comprehensive income are reclassified to net income during the same period or periods the related asset or liability impacts net income.

Inter Pipeline has substantially completed its review of agreements as required by the new Financial Instruments standard and research to date indicates that there will be an adjustment on January 1, 2007 to the balance sheet and Partner's Equity to record the impact of the implementation of these new standards.

International Financial Reporting Standards (IFRS)

In January 2006, the Accounting Standards Board (AcSB) adopted a new strategic plan for financial reporting in Canada, "Accounting Standards in Canada: New Directions." For publicly reported enterprises, the AcSB will converge Canadian GAAP with IFRS over the period from 2006 to 2011. After this time period, Canadian GAAP will be replaced by IFRS and cease to exist as a separate, distinct basis of financial reporting for publicly accountable enterprises. Canada will continue to maintain its own standard-setting capability to carry out the strategic direction outlined above, although roles, structures, processes and resources may evolve.

2006

Long-Term Incentive Plan (LTIP)

Effective January 1, 2006, Inter Pipeline implemented a new long-term incentive plan for its employees, officers and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) (formerly called the "Unit Appreciation Rights Plan") document that defines how awards made under the DURP will be determined and administered.

A Deferred Unit Right (DUR), as granted under the DURP, is valued based on Inter Pipeline's unit price, plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest as to one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes.

The charge to income represents the amortized value of the grants to date, the value of the distributions associated with the grants since the respective grant date, the increase/decrease in unit price per grant, new and cancelled grants.

2005

Variable Interest Entities

The Accounting Standards Board (AcSB) issued Canadian Accounting Guideline 15 (AcG 15), "Consolidation of Variable Interest Entities," which was effective as of January 1, 2005. This standard requires companies to identify variable interest entities in which they have an interest, determine whether they are the primary beneficiary of such entities and, if so, consolidate them for financial reporting purposes. Inter Pipeline has reviewed its investments and has concluded that no adjustments are required to the consolidation methods being used to account for its ownership interests in these entities. An assessment of this standard, as it relates to the acquisition of Simon Storage and TLG, has been completed and it was determined that this standard has no impact on Inter Pipeline's consolidated financial statements.

Foreign Currency Translation

With the acquisition of Simon Storage on October 4, 2005 and TLG on January 1, 2006, Inter Pipeline implemented a foreign currency translation policy. Inter Pipeline accounts for Simon Storage and TLG as self-sustaining operations. Therefore, the accounts of Simon Storage and TLG are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates during the period from the date of acquisition. Translation gains and losses relating to these self-sustaining operations are included as a separate component of Partners' Equity.

Pension Plans

The cost of pension benefits earned by certain of the Simon Storage and TLG employees covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group, which ranges from approximately 14 years to 16 years for certain of the United Kingdom and Ireland employees, respectively and 15 years for the German employees. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

The costs of pension benefits for certain of the Simon Storage employees covered by the defined contribution pension plan are expensed as the contributions are earned in the reporting period.

Current Income Taxes

Under existing tax legislation, Inter Pipeline is not subject to income taxes directly. The limited partners and General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Ireland and Germany.

Future Income Taxes

Inter Pipeline's future income tax liability arises due to its consolidation of the Simon Storage and TLG businesses and the proportionate consolidation of its 85% ownership in Cold Lake Pipeline Ltd., General Partner of the Cold Lake LP.

The future income tax related to Simon Storage and TLG is based on the differences between the accounting and tax basis of the assets and liabilities in the various subsidiaries.

The future income tax related to Cold Lake Pipeline Ltd. is based on differences between the accounting and tax basis of Cold Lake Pipeline Ltd.'s investment in the Cold Lake LP. This is offset by Cold Lake Pipeline Ltd.'s accumulated losses.

The future tax liability is calculated using the substantively enacted tax rates and laws that will be in effect when these temporary timing differences are expected to reverse as required by the liability method of accounting for income taxes. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

BUSINESS RISKS

Risks Associated with the Conventional Oil Pipeline and Oil Sands Transportation Businesses

Throughput Risks

Demand risks

Over the long-term, Inter Pipeline's business will depend, in part, on the level of demand for petroleum in the geographic areas in which deliveries are made by the pipeline assets and the ability and willingness of shippers having access or rights to utilize the pipeline assets to supply such demand. Inter Pipeline cannot predict the impact of future economic conditions, fuel conservation measures, alternative fuel requirements, government regulation (including those resulting from the ratification of the Kyoto Protocol or similar initiatives discussed below) or technological advances in fuel economy and energy generation devices, all of which could reduce the demand for petroleum.

Supply risks

Future throughput on the pipelines and replacement of petroleum reserves in their service areas is dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Reserve bases necessary to maintain long-term supply cannot be assured and petroleum price declines, without compensating reductions in costs of production, may reduce or eliminate the profitability of production and the supply of petroleum for the pipelines. While reserve additions and increased recovery rates historically have tended to offset natural declines in petroleum production in the areas serviced by the pipelines, reserve additions in recent years have not been sufficient to offset natural declines in produced volumes in the service areas. This reduces the likelihood that reserve additions and increased recovery rates will offset natural declines in petroleum production in the future. Sustained low petroleum prices could lead to a decline in drilling activity and production levels or the shutting-in or abandonment of wells. Drilling activity, production levels and shut-in or abandonment decisions may also be affected by the availability of capital to producers for drilling, allocation by producers of available capital to drill for oil as compared to natural gas, current or projected petroleum price volatility, overall supply and demand expectations and light to heavy oil price differentials. The conventional oil pipeline business segment is particularly dependent on producers' continuing petroleum exploration and development activity and on technological improvements leading to increased recovery rates in order to offset natural declines in petroleum production in the areas serviced by the pipelines. Absent the continuation of such activities and improvements, the volumes of petroleum transported on the pipelines will decline over time as reserves are depleted.

The Cold Lake pipeline system services the Cold Lake region of east central Alberta, which contains substantial oil sands deposits. In-situ recovery techniques such as Cyclical Steam Stimulation (CSS) and Steam-Assisted Gravity Drainage (SAGD), are used to produce bitumen in the Cold Lake region. These techniques require higher levels of capital investment and, as a result, bitumen production in the Cold Lake region is more sensitive to lower producer netback prices than crude oil production in the conventional oil pipeline business segment. Producer netback prices are affected by several factors including bitumen prices, natural gas and diluent costs and light crude oil to heavy crude oil price differentials. Natural gas is required to generate steam that assists in the extraction of bitumen. As well, the viscosity of bitumen requires diluent or a light crude oil product to be blended with the bitumen to allow it to be transported through the pipeline. High natural gas prices or a shortage of diluent supply may increase the overall costs of producing bitumen, which may reduce production and/or delay development of new production in the Cold Lake region.

Competition and contracts

Except in the case of the Cold Lake pipeline, Inter Pipeline's transportation revenues have been and will continue to be derived primarily from contracts or arrangements of 30 days' duration or less with producers in the geographic areas served by its pipeline assets. There can be no assurance that such contracts will continue to be renewed or, if renewed, will be renewed upon favourable terms to Inter Pipeline. Inter Pipeline's supply contracts with producers in the areas served by its conventional gathering systems are based on market-based toll structures negotiated from time to time with individual producers, rather than the cost-of-service recovery fixed rate of return structures applicable to some other pipelines. Inter Pipeline's conventional gathering business is, and will continue to be, subject to market competitive factors.

The pipelines are subject to competition for volumes transported by trucking or by other pipelines near the areas serviced by the pipelines. Competing pipelines could be constructed in areas serviced by the pipelines. There can be no assurance that competition from trucking and/or other pipelines will not result in a reduction in throughput on the pipelines.

The Cold Lake pipeline system is operated pursuant to long-term contracts with shippers that have committed to utilizing the Cold Lake pipeline system and that pay for such usage over the term of the contract. The minimum annual toll revenues from the Cold Lake pipeline system are derived from the take-or-pay provisions of the Cold Lake TSA, which arrangements continue until 2011. The minimum annual fee under these take-or-pay provisions declined effective January 1, 2005 pursuant to the Cold Lake TSA. Although volumes that are shipped by the Cold Lake Founders from the reserves dedication area while under the Cold Lake TSA are generally committed to the Cold Lake pipeline, the Cold Lake Founders may utilize alternative transportation methods after 2011 (if certain minimum volume levels are maintained) subject to the Cold Lake LP's right to match the alternative proposal. Consequently, there is no assurance that the level of volumes or revenues received from the Cold Lake founding shippers following the end of the take-or-pay period will be sustained. Further, the Cold Lake LP can supplement its revenues by marketing excess capacity on the Cold Lake pipeline to third parties, but there can be no assurance that Inter Pipeline will be successful in doing so.

Operations and development factors

Inter Pipeline's operations are subject to the customary hazards of the petroleum transportation business. Inter Pipeline's operations could be interrupted by failures of pipeline, pumps and equipment or natural disasters or other events beyond the General Partner's control, including acts of terrorists and other third party damage to the pipeline assets. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions, which coverage may not be sufficient to compensate for all casualty occurrences.

The pipelines are connected to various third-party mainline systems such as the Enbridge System, Express Pipeline and the Trans Mountain Pipeline, as well as refineries in the Edmonton area. Operational disruptions or apportionment on those third-party systems or refineries may prevent the full utilization of the pipeline assets.

A significant operating cost for Inter Pipeline is electrical power. Deregulation of the Alberta electrical power market has contributed to increased volatility in electrical power prices. Factors such as a shortage of electrical power supply or high natural gas prices could contribute to higher electrical power prices, which may result in higher operating costs for Inter Pipeline.

The General Partner has an integrity management program that includes, among other things, key elements such as in line inspection, cathodic protection, internal corrosion control and leak detection. This program is designed primarily to manage the physical degradation of the pipeline assets and, if practicable, extend their useful life. While the General Partner believes the program is consistent with industry practice, increasingly strict operational regulations or new data on the condition of the pipeline assets could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of the pipeline assets.

Future expansions of existing pipeline systems and other capital expenditures will be financed out of cash generated from operations, sales of additional Class A Units and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to Inter Pipeline to fund expansion or other capital expenditures.

Rights-of-way and access

Successful development of the pipeline assets through construction of new pipelines or extensions to existing pipelines depends in part on securing leases, easements, rights-of-way, permits or licenses from landowners or governmental authorities allowing access for such purposes. In general, the process of securing rights-of-way or similar access is becoming more complex, particularly in more densely populated and other sensitive areas. The Cold Lake pipeline system operates in the Edmonton area and within the Cold Lake Air Weapons Range. Although pipelines have been constructed in both areas by other pipeline operators in recent years, these are two of the more difficult areas in which to secure pipeline rights-of-way in the Province of Alberta.

Multi-jurisdictional regulation

The pipeline assets are subject to intra-provincial and multi-jurisdictional regulation, including regulation by the Alberta Energy and Utilities Board and Alberta Environment (Alberta), and the Saskatchewan Oil and Gas Conservation Board (Saskatchewan). As a result, Inter Pipeline's operations may be affected by changes directed by such regulatory authorities.

The Bow River, Central Alberta, Valley and Cold Lake pipeline systems are wholly within the boundaries of the Province of Alberta and are primarily subject to regulation under the Pipeline Act (Alberta) and Pipeline Regulation (Alberta), and by the Alberta Energy and Utilities Board. The Mid Saskatchewan pipeline system is wholly within the boundaries of the Province of Saskatchewan and is subject to regulation under the Pipelines Act (Saskatchewan) and the Pipeline Regulation (Saskatchewan) and by Saskatchewan Industry and Resources. None of the pipelines are subject to regulation by the National Energy Board.

Oil pipelines in Alberta may be subject to rate regulation by the Alberta Energy and Utilities Board under the Public Utilities Board Act (Alberta). In Saskatchewan, oil pipelines may similarly be subject to rate regulation under the Pipelines Act (Saskatchewan).

Legislation in the Province of Alberta exists to ensure that shippers and producers have fair and reasonable opportunities to produce, transport, process and market their reserves. Under the Oil and Gas Conservation Act (Alberta), the Alberta Energy and Utilities Board may, on application, and following a hearing, declare the proprietor of a pipeline to be a common carrier of oil such that the proprietor must not discriminate among shippers and producers that seek access to the pipeline. Following the issuance of a common carrier declaration, a shipper or producer may apply to the Alberta Energy and Utilities Board for a review and setting of tolls, which it determines to be just and reasonable. Transportation service on the pipelines has been made available on an open access, non-discriminatory basis and the pipelines' tolls have not been set or restricted by any regulatory agency. Should an application to the Alberta Energy and Utilities Board for a setting of tolls be made, it could result in a toll reduction and decreased revenues for Inter Pipeline. Although never exercised, the Alberta Energy and Utilities Board has determined that the Public Utilities Board Act (Alberta) provides it with jurisdiction to override transportation contracts.

Risks Associated with the NGL Extraction Business

Natural Gas Availability and Composition

The volumes of natural gas processed by the NGL extraction business depend on the throughput of the Foothills/ Northern Border System and TransCanada Alberta System from which the NGL extraction facilities source their natural gas supply. Without reserve additions or other new sources of gas supply, throughputs will decline over time as reserves are depleted in the areas these pipeline systems service. Natural gas producers in these service areas also may not be successful in exploring for and developing additional reserves or commodity prices may not remain at a level that encourages natural gas producers to explore for and develop additional reserves or to produce existing marginally economic reserves. In addition, the pipeline systems that service the NGL extraction business may also face competition from other existing or proposed natural gas transmission systems that are not, or will not be, connected to the NGL extraction facilities, resulting in natural gas being unavailable for processing. Also, to continue to have the right to extract NGL from natural gas being transported on the natural gas transmission systems, Inter Pipeline will be required to continue to negotiate extraction agreements with the various natural gas export shippers holding the rights to such NGL from time to time, and there is no assurance that Inter Pipeline will be able to renew contracts of the NGL extraction business to extract NGL on economic terms or at all.

The production of NGL from the NGL extraction facilities is largely dependent on the quantity and composition of the NGL within the natural gas streams that supply the NGL extraction business. The quantity and composition of NGL may vary over time. For instance, the production of coal bed methane, a dry gas source that contains virtually no recoverable NGL, is forecasted to increase above the current level of approximately 2.5 percent of TransCanada Alberta System's gas supply. Increased volumes of lean gas on the TransCanada Alberta system will reduce the composition of NGL in the gas streams available for processing at the NGL extraction facilities. Other factors, such as an increased level of natural gas processing conducted at field processing plants upstream of the NGL extraction facilities, or processing completed at any new extraction plants constructed upstream of the NGL extraction facilities, or changes in the quantity and composition of the natural gas produced from the reservoirs that supply the NGL extraction facilities, could have a material effect on NGL production from the NGL extraction business.

Operational Factors

Inter Pipeline's operations are subject to common hazards of the NGL extraction business. The operation of the NGL extraction business could be disrupted by natural disasters or other events beyond the control of Inter Pipeline. An accident or failure could result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance coverage with respect to some, but not all, losses in amounts customary for similar business operations, which coverage may not be sufficient to compensate for all casualty occurrences.

The operation of the NGL extraction business involves many risks, including urban encroachment around the facilities (particularly the Cochrane plant), the breakdown or failure of equipment, information systems or processes, the performance of equipment at levels below those originally intended (whether due to misuse, unexpected degradation or design, construction or manufacturing defects), failure to maintain an adequate inventory of supplies or spare parts, operator error, labour disputes, disputes with owners of interconnected facilities and carriers and catastrophic events such as natural disasters, fires, explosions, chemical releases, fractures, acts of terrorists, eco-terrorists and saboteurs,, and other similar events, many of which are beyond the control of Inter Pipeline. The occurrence or continuance of any of these events could increase the cost of operating facilities and/or reduce its processing or throughput capacity, thereby reducing cash flow and LPA Distributable Cash.

The NGL extraction facilities are connected to various third-party trunk line systems including the TransCanada Alberta System, Foothills/Northern Border System, Kerrobert pipeline, Co-Ed pipeline and the Alberta Ethane Gathering System. Operational disruptions or apportionment on those third-party systems and/or disruptions at the other facilities in the Empress area may prevent the full utilization of the NGL extraction facilities.

Operating and Capital Costs

Operating and capital costs of the NGL extraction business may vary considerably from current and forecast values and represent significant components of the cost of providing service. In general, as equipment ages, maintenance capital expenditures and maintenance expenses with respect to such equipment may increase over time. Distributions may be reduced if significant increases in operating or capital costs are incurred.

Although certain operating costs are intended to be recaptured by the payments charged on fee-based or cost-of-service arrangements, there is no guarantee that all costs will be fully recovered. While Inter Pipeline will manage operational and capital cost risks through a variety of methods, including cost control programs and preventative maintenance initiatives, Inter Pipeline's operating results would be adversely affected if significant increases in operating or capital costs were incurred.

Competition

The NGL extraction facilities are subject to competition from other extraction plants that are in the general vicinity of the NGL extraction facilities or that may be constructed "upstream" of the NGL extraction facilities. The NGL extraction facilities are also subject to competition from field processing facilities that extract NGL from the natural gas streams before injection into the TransCanada Alberta System or the Foothills/Northern Border System.

To the extent that other existing or newly constructed extraction or field processing plants are successful in securing natural gas supply currently processed at the NGL extraction facilities or are successful in removing significant amounts of NGL from the natural gas supply "upstream" of the NGL extraction facilities, this will adversely affect Inter Pipeline's revenues and operating results.

Similarly, there is no assurance that new sources of natural gas supply that may be developed in frontier areas such as Alaska and the Mackenzie Delta in the Northwest Territories will be transported via the natural gas transmission systems straddled by the NGL extraction facilities or that new extraction plants will not be constructed "upstream" of the NGL extraction facilities to process that natural gas.

In August 2006, Taylor NGL Limited Partnership (Taylor) submitted an application to the Alberta Energy and Utilities Board for modifications at its Harmattan facility and to construct a bypass pipeline around the Cochrane plant for the purpose of extracting NGL from up to 490 mmcf/d of natural gas on the TransCanada Alberta System directly upstream of the Cochrane plant. Should Taylor be successful in obtaining regulatory approval and physically install the facilities required to convert the Harmattan sour gas processing plant to a hybrid sour gas/mainline straddle plant, there would be a subsequent reduction in volumes available for processing at the Cochrane plant.

Commodity Price; Frac-Spread

Inter Pipeline is exposed to the relative price differential between the NGL produced and the shrinkage gas used to replace the heat content removed during extraction of the NGL from the natural gas stream. The amount of profit made from this portion of the NGL extraction business will increase or decrease as the difference between the price of the applicable NGL and the price of natural gas varies (also referred to as the frac-spread).

Extraction Rights

Further influencing the profitability of the NGL extraction business is the cost of extraction premiums paid to natural gas suppliers. Extraction premiums are paid to these suppliers in exchange for the right to extract NGL from their natural gas. Historically, these premiums have been moderate, but it is possible that they could increase, which would adversely affect the cash flow of the NGL extraction business. A reduction in cash flow of the NGL extraction business could materially and adversely affect the business, financial condition, and liquidity, results of operations and Distributable Cash, thereby resulting in a decrease in distributions to unitholders.

Reliance on Dow Chemical, NOVA Chemicals and BP Canada

Dow Chemical, NOVA Chemicals and BP Canada are the principal customers of the NGL extraction business and represent the vast majority of the cash flow from the NGL extraction business. BP Canada also operates the Empress II plant and the Empress V plant. If for any reason, these parties were unable to perform their obligations under the various agreements with Inter Pipeline, Inter Pipeline's revenue and distributions, or the operations of the Empress II plant and the Empress V plant, could be negatively impacted.

Regulatory Factors

The NGL extraction business is subject to regulation by the Alberta Energy and Utilities Board. Straddle plants in Alberta are not commercially regulated and all such facilities operate under similar proprietary commercial arrangements known as the "NGL Extraction Convention". Over the past three years, the Alberta Energy and Utilities Board has directed processes to review the NGL Extraction Convention to determine if it satisfies the public interest, the mandate of the regulator. In July 2006, the Alberta Energy and Utilities Board notified industry participants that it would conduct a further review of the NGL Extraction Convention. Furthermore, TransCanada has put forth a proposal to include a modified NGL Extraction Convention in the NGTL tariff. Any potential revisions to the NGL Extraction Convention could impact the NGL extraction rights that are contracted in the future by straddle plants.

Risks Associated with the Bulk Liquid Storage Business

Demand for Bulk Liquid Storage

Inter Pipeline's bulk liquid storage business is primarily involved in the storage and handling of liquids for regional petroleum refining and petrochemical businesses. The products stored and handled at these storage terminals are generally either feedstocks for petrochemical plants and refineries or are products produced from those facilities. As a result, a sustained slowdown in either the petroleum refining or petrochemical sectors serviced by the storage business could adversely affect Inter Pipeline's revenue and operating results.

The Immingham storage terminals, Inter Pipeline's largest European terminals, are highly integrated with two local refineries: the ConocoPhillips Humber refinery and the Total Lindsay refinery. The closure of one or both refineries would significantly reduce revenues from the bulk liquid storage business.

The Seal Sands terminal handles vegetable oils and methyl ester for one of Europe's largest biodiesel manufacturing facilities. If for any reason, the principal customer Biofuels Corporation plc was unable to meet the obligations of its storage contract, the revenues of this business activity could be negatively impacted.

Competition

The bulk liquid storage business faces competition from other independent bulk liquid terminals which operate in several of the regions serviced by Inter Pipeline's terminals. Certain of the bulk liquid storage business' customers also have the option to store products at their own storage facilities. As a result, customers could elect in the future to make alternative arrangements for the storage and handling of their products, resulting in a decline in the bulk liquid storage business' revenue.

Contract and Land Lease Renewals

Storage contracts in the bulk liquid storage business have terms ranging from less than one year to over 20 years. Historically, many contracts have been renewed upon expiry. However, this trend may not continue in the future and contracts may not be renewed or honoured due to several factors, including customer default or closure, customer consolidation or loss of customers to competitors.

Several key storage terminals are located on lands leased from third parties that must be renewed from time to time. Failure to renew the leases at terms acceptable to Inter Pipeline could result in significantly reduced operating results from the bulk liquid storage business.

Operational Factors

The operation of the bulk liquid storage business is subject to hazards which are customary to the bulk liquid storage industry. Operations could be interrupted by equipment failures, natural disasters or other events beyond the General Partner's control, including acts of terrorists or other third party damage. A casualty occurrence might result in the loss of equipment or life, as well as injury and property damage. Inter Pipeline carries insurance with respect to some, but not all, casualty occurrences and disruptions, which coverage may not be sufficient to compensate for all casualty occurrences.

Operational disruptions of key petrochemical or refining customers may result in a reduction in the bulk liquid storage business' revenue until such disruptions are resolved.

The bulk liquid storage business has preventative maintenance programs that are designed to manage the physical degradation of key equipment. While the General Partner believes the programs are consistent with industry practice, increasingly strict operational regulations or new data on the condition of ageing plants and equipment could result in repair or upgrading activities that are more extensive and costly than in the past. Such developments could contribute to higher operating costs for Inter Pipeline or the termination of operations on the affected portion of the bulk liquid storage business.

Defined Benefit Pension Plan

A defined benefit pension plan exists for certain employees of the bulk liquid storage business. The plan holds interests in various securities and assets including equities, fixed income instruments and real estate. Should the liabilities of the plan exceed the plan's assets, additional cash contributions may be required by Inter Pipeline, which would adversely affect the operating results of the bulk liquid storage business.

Risks Common to the Conventional Oil Pipeline, Oil Sands Transportation, Bulk Liquid Storage and NGL Extraction Businesses

Federal Government Tax Fairness Plan

On October 31, 2006, the Government of Canada announced the Tax Fairness Plan which, upon implementation, would negatively impact most flow-through entities in Canada, including Inter Pipeline. The government initiative, as currently contemplated, would result in Inter Pipeline becoming taxable in 2011 at an effective income tax rate of 31.5% applied against taxable income. If enacted as currently described, the resultant cash available for distribution would be reduced by an amount approximating the new income tax payable. The impact on cash distributions will not be known until the time at which the relationship between cash available for distribution and actual LPA Distributable Cash paid is known. The Government of Canada has also proposed a limit on the growth of flow-through entities tied to the market capitalization of such entities. The proposal provides that a flow-through entity can only issue new equity in an amount equivalent to the market value of such entity's equity on October 31, 2006. Therefore, Inter Pipeline will be able to issue only $2 billion of new equity to grow its business over the next four years. Inter Pipeline continues to assess alternatives in order to remain competitive in light of these proposed amendments to the tax legislation. However, upon implementation, these taxation changes may have an adverse impact on the financial results of Inter Pipeline and distributions to Class A unitholders may be adversely affected.

Regulatory Intervention and Changes in Legislation

Facilities and pipelines can be subject to common carrier and common processor applications and to rate setting by regulatory authorities in the event agreement on fees or tariffs cannot be reached with producers, shippers and other customers. To the extent that producers, shippers or other customers believe processing fees or tariffs are too high, they may seek rate relief through regulatory means.

Although the fees charged to customers of the pipeline assets or the NGL extraction business have not been set or restricted by any regulatory agency, an application to the Alberta Energy and Utilities Board or Saskatchewan regulator for the setting of fees could result in a reduction of fees and decreased revenues for Inter Pipeline.

Income tax laws relating to the oil and natural gas industry or limited partnerships, environmental and applicable operating legislation, and legislation and regulatory framework governing the oil and natural gas industry, including rights to NGL and their extraction, may be changed in a manner which adversely affects Inter Pipeline's operations or financial results.

Abandonment Costs

Inter Pipeline is responsible for compliance with all laws, regulations and relevant agreements regarding the abandonment of the pipeline assets (including, indirectly, its proportionate share of costs relating to the Cold Lake LP), the assets in the bulk liquid storage business and the NGL extraction facilities at the end of their economic lives which abandonment costs may be substantial. Abandonment costs are a function of regulatory requirements at the time of abandonment, the characteristics (such as diameter, length and location) of the pipeline or the size and complexity of the extraction or storage facility.

Abandonment requirements can vary considerably. For example, in the context of the pipeline assets, requirements can range from simply emptying the pipeline and capping all open ends, to the removal of the pipeline and reclamation of the related right-of-way. With respect to pipelines, the costs of abandonment have been limited primarily to the costs associated with the removal of petroleum from the lines, the removal of any associated surface facilities and surface reclamation of the disturbed site. However, future requirements are expected to be more stringent and may include requirements to verify the reclamation of the entire pipeline right-of-way, in addition to the locations of former surface facilities.

Abandonment and reclamation costs for the NGL extraction facilities are regulated by the Alberta Energy and Utilities Board pursuant to Directive 001. The NGL extraction facilities are included in the Alberta Energy and Utilities Board's Large Facilities Liability and Reclamation regulations and have defined reclamation requirements and financial tests to ensure that end of life costs can be funded. However, future requirements may be more stringent.

The General Partner may, in the future, determine it prudent to establish and fund one or more reclamation trusts to address anticipated abandonment costs. The payment of the costs of abandonment of the pipeline assets or the NGL extraction facilities or the assets of the bulk liquid storage business, or the establishment of reserves for that purpose, would reduce LPA Distributable Cash, and the timing of additions to, and distributions from, such reserves or trusts may result in the realization of taxable income by unitholders in a year prior to that in which funds resulting therefrom are distributed. See "LPA – Cash Reserves".

Environmental Costs and Liabilities

Inter Pipeline's operations are subject to the laws and regulations of the European Union, Germany, Ireland, the United Kingdom and Canada, Alberta and Saskatchewan relating to environmental protection and operational safety. Operation of certain of the pipeline assets, storage business assets and straddle plants has spanned several decades. While the remediation of releases or contamination during such period may have met then-current environmental standards, such remediation may not meet current or future environmental standards and historical contamination may exist for which Inter Pipeline may be liable. Inter Pipeline has completed internal environmental reviews that have selectively attempted to identify locations of historical contamination and several locations have been remediated. As these reviews have not included all assets, all locations of historical contamination may not be identified. The remaining identified, but unremediated, sites will be addressed in a prioritized manner, utilizing industry practices, with some locations being subject to multi-year restoration plans.

It is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from Inter Pipeline's operations and previously undetected locations of historical contamination, could result in substantial costs and liabilities for Inter Pipeline. If, at any time, regulatory authorities deem any one of the NGL extraction facilities, pipelines or storage business assets unsafe, they may order it shut down. If Inter Pipeline was not able to recover such resulting costs through insurance or another means, distributions to Class A unitholders could be adversely affected.

With respect to the bulk liquid storage business, following the Buncefield oil terminal incident in December 2005, the United Kingdom's regulatory authorities have been in the process of formulating policies which require additional high integrity systems and controls on tanks and associated infrastructure. The extent of infrastructure and manning modifications necessary to comply with such policies has yet to be clearly established, but indications are that substantial changes to infrastructure may be required to be implemented in the coming years. In addition, environmental regulations may require additional tank emission controls and new review of contaminated lands.

While Inter Pipeline maintains insurance in respect of damage caused by seepage or pollution in amounts it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit the availability thereof in respect of certain occurrences unless they are discovered and reported within fixed time periods (for example, 10 days under Inter Pipeline's current Canadian insurance policies). If Inter Pipeline is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available.

Kyoto Protocol

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol, which will require, upon ratification, nations to reduce their emissions of carbon dioxide and other greenhouse gases. The governments of Canada, Germany, the United Kingdom and Ireland have ratified and signed the Kyoto Protocol. Despite ratification of the Kyoto Protocol, the Government of Canada has indicated that the first set of targets set out under the Kyoto Protocol may not be achievable by Canada, but has stated that the impacts of air emissions on the environment is a key issue to be addressed and that regulation will be forthcoming.

In late 2006, the Government of Canada introduced the Clean Air Act and the Notice of Intent to Regulate as an amendment to the Canadian Environmental Protection Act. The Clean Air Act is the enabling legislation that clarifies the federal government's powers to regulate air pollutants and greenhouse gases for various industrial activities, including oil and natural gas exploration and production, transportation and processing. The overall regulatory approach is scheduled to be set by the spring of 2007, with the initial provisions to be in effect by 2010.

The adoption of this legislation or other regulatory initiatives designed to implement the objectives of reductions in greenhouse gases and air pollutants from oil and natural gas producers, refiners and petrochemical producers and electric generators in the geographic areas served by the pipelines, NGL extraction facilities and bulk liquid storage business could result in, among other things, increased operating and capital expenditures for those operators. This may make certain production of petroleum and natural gas by those producers uneconomical, resulting in reduced or delayed production, or reduced scope in planned new development or expansion projects. The operation of certain refineries and petrochemical plants may also become uneconomic.

The Kyoto Protocol, or other legislation introduced by the Government of Canada and/or the Government of Alberta to reduce greenhouse gas emissions and air pollutants, may also result in higher operating and capital costs for the pipeline assets and the NGL extraction facilities. The Cochrane plant is the largest emitter of greenhouse gases of Inter Pipeline's suite of assets. In addition to greenhouse gas emissions resulting from natural gas fired turbines used in the production of NGL, the Cochrane plant recovers carbon dioxide entrained in the natural gas stream as a by-product of ethane production. The Cochrane plant sells a portion of this carbon dioxide as a specification product and vents to the atmosphere the remainder of the carbon dioxide.

The proposed Clean Air Act regulations may result in a charge associated with power consumption, natural gas fired energy sources or with the release of greenhouse gases or other air pollutants to the atmosphere for all of Inter Pipeline's facilities in Canada.

Dependence on Key Personnel

The success of Inter Pipeline will be largely dependent on the skills and expertise of key personnel to manage Inter Pipeline's business. The continued success of Inter Pipeline will be dependent upon its ability to hire and retain such personnel. Inter Pipeline does not have any "key man" insurance, other than for three executive directors of the bulk liquid storage business resident in the United Kingdom.

International Operations

A portion of Inter Pipeline's operations are conducted in the United Kingdom, Ireland and Germany. Operations outside of Canada are subject to various risks, including: currency exchange rate fluctuations; foreign economic conditions; trade barriers; exchange controls; national and regional labour strikes; political risks and risks of increases in duties; taxes and changes in tax laws; and changes in laws and policies governing operations of foreign-based companies. The occurrence of any adverse international economic conditions could have material adverse effects on Inter Pipeline's cash flows, results of operations and financial condition.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Inter Pipeline has completed a number of acquisitions and, as part of its business plan, anticipates making additional acquisitions in the future. Achieving the benefits of completed and future acquisitions depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Inter Pipeline's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Inter Pipeline. The integration of acquired businesses requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters. The integration process may also result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Inter Pipeline's ability to achieve the anticipated benefits of past and future acquisitions. Acquisitions may expose Inter Pipeline to additional risks, including entry into markets or businesses in which Inter Pipeline has little or no direct prior experience, the incurring of additional debt, costs and contingent liabilities and exposure to liabilities of the acquired business or assets.

Capital Maintenance Levels

Inter Pipeline maintains and periodically replaces portions of its assets to sustain facility performance, provide a high level of asset integrity, and ensure reliable operations. The funds associated with these efforts may be in the form of sustaining capital or maintenance expenses. Maintenance expenses are a subset of "operating" expenses and are not accounted for separately. Historical sustaining capital expenditures pertaining to Inter Pipeline's facilities during the past three years are summarized by business segment in the table below.

	Year Ended December 31		
($ millions)	2006	2005	2004
NGL extraction[1]	$ 2.7	$ 1.4	$ 0.2
Conventional oil pipeline	1.8	2.5	2.4
Oil sands transportation	0.2	0.2	0.1
Bulk liquid storage[2][3]	8.9	2.7	n/a
Total	$ 13.6	$ 6.8	$ 2.7

[1] The NGL extraction business was acquired on July 28, 2004.

[2] The bulk liquid storage business was acquired on October 4, 2005.

[3] TLG was acquired on January 1, 2006.

Inter Pipeline believes it can maintain its assets at similar levels of sustaining capital and maintenance expenditures. However, both sustaining capital and maintenance expenditures may vary considerably from current and forecast amounts as a result of a number of factors, including high equipment failures rates, more stringent government regulations, and any additional efforts deemed necessary by Inter Pipeline to improve the reliability of its assets. An increase in capital and/or maintenance expenditures could result in significant additional costs to Inter Pipeline, which would have an adverse impact on Inter Pipeline's financial results and cash available for distribution to unitholders.

Possible Downgrade of Investment Grade Credit Rating

Inter Pipeline's long-term corporate credit rating is currently confirmed by Standard & Poor's to be investment grade (BBB). Should this rating fall below investment grade, Inter Pipeline may have to provide security or pay in advance for goods and services which could have material adverse effects on Inter Pipeline's cash flows and financial condition.

Risks Inherent in the Nature of the Partnership

Fluctuating Distributions; Cash Distributions Are Not Guaranteed

Distributions of LPA Distributable Cash by Inter Pipeline will fluctuate and the amount thereof is not guaranteed. Although Inter Pipeline will distribute LPA Distributable Cash, there can be no assurance regarding the amounts thereof. The actual amount thereof will depend upon numerous factors, including operating cash flow, cash reserves established by the General Partner, general and administrative costs, capital expenditures, dispositions, principal repayments and debt service costs. The General Partner has broad discretion in, among other things, establishing, maintaining and decreasing cash reserves, and its decisions regarding reserves and other matters could have a significant impact on the amount of LPA Distributable Cash. The amount of cash distributed may be less than or greater than the amount of income allocated to Limited Partners for tax purposes.

Nature of the Class A Units

Securities such as Class A units are often associated with investments that provide for returns arising from the pass through of income tax deductions associated with partnership activities and a distribution of distributable cash. Inter Pipeline is not expected to allocate any tax deductions.

The Class A units do not have a guaranteed rate of return and represent a fractional interest in Inter Pipeline. The prices at which the Class A units will trade cannot be predicted. The annual yield on the Class A units as compared to annual yield on other financial instruments may also influence the price of Class A units in the public trading markets. See "Risk Factors – Risks Inherent in the Nature of the Partnership – Fluctuating Distributions; Cash Distributions Are Not Guaranteed."

One of the factors that may influence the market price of the Class A units is the level of prevailing interest rates relative to the yield achieved by Class A unitholders based on annual distributions on the Class A units. Accordingly, an increase in market interest rates may lead purchasers of Class A units to expect a higher effective yield, which could adversely affect the market price of the Class A units. In addition, the market price for the Class A units may be affected by changes in general market conditions, fluctuations in the markets for equity securities, interest rates and numerous other factors beyond the control of Inter Pipeline.

Responsibility of the General Partner

The General Partner must exercise good faith and integrity in administering the assets and affairs of Inter Pipeline. However, the LPA contains various provisions that have the effect of restricting the fiduciary duties that might otherwise be owed by the General Partner to Inter Pipeline and the Limited Partners, and waiving or consenting to conduct by the General Partner that might otherwise raise issues as to compliance with fiduciary duties. Unlike the strict duty of a trustee who must act solely in the best interests of his beneficiary, the LPA permits the General Partner to consider the interests of all parties to a conflict of interest, including the interests of the General Partner and of Pipeline Assets Corp. as the sole shareholder of the General Partner. The LPA also provides that, in certain circumstances, the General Partner will act in its sole discretion, in good faith or pursuant to some other specified standard.

Conflicts of Interest

Certain conflicts of interest could arise as a result of the General Partner's relationship with Pipeline Assets Corp. and its affiliates, on the one hand, and Inter Pipeline on the other. Such conflicts may include, among others, the following situations: (i) the General Partner's determination of the amount and timing of any capital expenditures, borrowings and reserves; (ii) the issuance of additional Class A units; (iii) payments to affiliates of the General Partner for any services rendered to or on behalf of Inter Pipeline; (iv) agreements and transactions with affiliates of the General Partner as producers and shippers utilizing the pipelines; (v) the General Partner's determination of which direct and indirect costs are reimbursable by Inter Pipeline; (vi) the enforcement by the General Partner of obligations owed by the General Partner or its affiliates to Inter Pipeline; and (vii) the decision to retain separate counsel, accountants or others to perform services for or on behalf of Inter Pipeline.

Such conflicts of interest may also arise in the conduct of business by affiliates of the General Partner, either currently or in the future, which may be in competition with the business conducted by Inter Pipeline. The General Partner's affiliates are not restricted by the LPA from pursuing their own business interests.

Inherent Tax Liability

The assets held directly or indirectly by Inter Pipeline generally have a cost base for applicable income tax purposes that is significantly below the estimated fair market value of such assets and may be significantly below the fair market value of such assets at the time of any disposition thereof in the future. As a result, any disposition of such assets by Inter Pipeline, or a partnership in which Inter Pipeline is itself a partner, may, depending on the particular circumstances of the disposition and the particular circumstances of Inter Pipeline at the time of such disposition, result in the recapture of previously deducted capital cost allowance and the realization of capital gains by Inter Pipeline which amounts would be allocated among the Partners for tax purposes. Income or loss for tax purposes, which includes recapture, is allocated to Partners based on the proportion of cash distributions received by the Partner in the fiscal year.

Capital Resources

Future expansions of the pipeline assets, the NGL extraction facilities and other capital expenditures will be financed out of cash generated from operations, sales of additional Class A units and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to Inter Pipeline to fund expansion or other required capital expenditures.

Inter Pipeline's ability to refinance its indebtedness under its credit facility and the General Partner loan will depend upon its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels and financial, competitive, business and other factors, many of which are beyond its control. In addition, there can be no assurance that future borrowings or equity financing will be available to Inter Pipeline or available on acceptable terms, in an amount sufficient to fund Inter Pipeline's needs. This could, in turn, have a material adverse effect on the business, financial condition and results of operations of Inter Pipeline and the ability of Inter Pipeline to make cash distributions to unitholders.

Leverage

Borrowings made by the General Partner on behalf of Inter Pipeline introduce leverage into Inter Pipeline's business which increases the level of financial risk in the operations of Inter Pipeline and, to the extent interest rates are not fixed, increases the sensitivity of distributions by Inter Pipeline to interest rate variations.

Long-Term Debt Restrictive Covenants

The credit facility and the General Partner loan contain numerous restrictive covenants that limit the discretion of Inter Pipeline's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of Inter Pipeline to create liens or other encumbrances, to pay distributions or make certain other payments, loans and guarantees, and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the credit facility and General Partner loan contain financial covenants that require Inter Pipeline to meet certain financial ratios and financial condition tests. A failure to comply with the obligations under these agreements could result in a default, which if not cured or waived, could result in a reduction or termination of distributions by Inter Pipeline and permit acceleration of the relevant indebtedness. In addition, in some circumstances, it may become necessary to restrict or terminate distributions by Inter Pipeline in order to avoid a default of such obligations.

Issues of Additional Class A Units; Dilution

Inter Pipeline may issue additional Class A units in the future to finance certain of Inter Pipeline's capital expenditures, including acquisitions. The LPA permits Inter Pipeline to issue an unlimited number of additional Class A units without the need for approval from Class A unitholders. The Class A unitholders, other than the General Partner and its affiliates, have no pre-emptive rights in connection with such additional issues. The General Partner has discretion in connection with the price and the terms of issue of additional Class A units. Any issuance of Class A units may have a dilutive effect to existing unitholders.

Limited Voting Rights, Management and Control; Difficulty in Removing General Partner

Class A unitholders generally do not have voting rights in relation to matters involving Inter Pipeline or the General Partner, including with respect to the election of directors of the General Partner. The General Partner manages and controls the activities of Inter Pipeline. Class A unitholders have no right to elect the General Partner on an annual or other ongoing basis and, except in limited circumstances, the General Partner may not be removed by the Limited Partners. Directors of the General Partner are elected by Pipeline Assets Corp., the sole shareholder of the General Partner, which is a corporation controlled by John A. Driscoll and the sole shareholder of the General Partner.

Limited Liability

A Limited Partner may lose the protection of limited liability if such Limited Partner takes part in the control of the business of Inter Pipeline or does not comply with legislation governing limited partnerships in force in provinces where the Class A units are offered for sale or where Inter Pipeline carries on business.

General Partner Indemnity

While the General Partner has agreed to indemnify the Limited Partners in circumstances described in the LPA, the General Partner may not have sufficient assets to honour such indemnification.

NON-GAAP FINANCIAL MEASURES

Certain financial measures referred to in this MD&A, namely "cash available for distribution", "enterprise value", "funds from operations", "funds from operations per unit", "payout ratio after sustaining capital", "payout ratio before sustaining capital", "senior debt to total capitalization", "growth capital expenditures", "sustaining capital expenditures", "total debt to total capitalization" and "working capital" are not measures recognized by GAAP. These non-GAAP financial measures do not have standardized meanings prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. Investors are cautioned that these non-GAAP financial measures should not be construed as alternatives to other measures of financial performance calculated in accordance with GAAP.

The following non-GAAP financial measures are provided to assist investors with their evaluation of Inter Pipeline, including their assessment of its ability to generate cash and fund the monthly distributions. Management considers these non-GAAP financial measures to be important indicators in assessing its performance.

Cash available for distribution includes cash provided by operating activities less net changes in non-cash working capital and sustaining capital expenditures. This measure is used by the investment community to calculate the annualized yield of the units.

Enterprise value is calculated by multiplying the period-end closing unit price by the total number of units outstanding and adding debt plus the debt portion of the Debentures. This measure, in combination with other measures, is used by the investment community to assess the overall market value of the business. Enterprise value is calculated as follows:

	As at December 31	
($ millions, except per unit amounts)	2006	2005
Closing unit price	$ 9.04	$ 10.05
Total number of partnership units outstanding	201.7	184.6
	1,823.6	1,855.2
Long-term debt	674.8	805.8
Debentures	11.7	15.9
Enterprise value	$ 2,510.1	$ 2,676.9

Management's Discussion and Analysis

Funds from operations is reconciled from the components of net income as noted below and is expressed before changes in non-cash working capital. This measure, together with other measures, is used by the investment community to assess the source and sustainability of cash distributions.

	Three Months Ended December 31		Year Ended December 31	
($ millions)	2006	2005	2006	2005
Operating revenue	$ 275.2	$ 309.6	$ 1,011.0	$ 926.9
Shrinkage gas expense	(110.9)	(172.0)	(422.8)	(504.8)
Cash operating expense	(96.5)	(77.5)	(308.2)	(210.2)
Cash general and administrative expense	(9.2)	(7.9)	(28.0)	(17.6)
Management fee expense	(1.2)	(1.0)	(5.0)	(3.9)
Acquisition fee expense	–	(2.5)	(0.4)	(2.5)
Credit facility interest expense	(3.8)	(4.4)	(15.2)	(9.6)
Loan payable to General Partner interest expense	(5.8)	(5.8)	(23.1)	(23.1)
Interest on Debentures	(0.3)	(0.4)	(1.4)	(2.2)
Current income taxes	(0.3)	–	(1.5)	–
Funds from operations	$ 47.2	$ 38.1	$ 205.4	$ 153.0

Funds from operations per unit is calculated on a weighted average basis using basic units outstanding during the period.

Growth capital expenditures are generally defined as expenditures that are related to system capacity expansions, business growth, volume or revenue increases and/or sustainable operating efficiencies. This measure is used by the investment community to assess the extent of discretionary capital spending.

Sustaining capital expenditures are generally defined as new assets that provide support to operations and/or expenditures that involve an enhancement to existing assets without the associated benefits characteristic of growth capital expenditures. This measure is used by the investment community to assess the extent of non-discretionary capital spending.

	Three Months Ended December 31			
			2006	2005
($ millions)	Growth	Sustaining	Total	Total
NGL extraction	$ 2.6	$ 1.7	$ 4.3	$ 2.0
Conventional oil pipeline	1.6	0.4	2.0	6.8
Oil sands transportation	6.0	0.2	6.2	0.2
Bulk liquid storage	4.6	3.3	7.9	4.4
Total	$ 14.8	$ 5.6	$ 20.4	$ 13.4

	Year Ended December 31			
			2006	2005
($ millions)	Growth	Sustaining	Total	Total
NGL extraction	$ 7.1	$ 2.7	$ 9.8	$ 3.6
Conventional oil pipeline	13.9	1.8	15.7	13.9
Oil sands transportation	16.9	0.2	17.1	0.4
Bulk liquid storage	14.1	8.9	23.0	4.4
Total	$ 52.0	$ 13.6	$ 65.6	$ 22.3

Payout ratio after sustaining capital is calculated by expressing cash distributions declared for the period as a percentage of cash available for distribution for the period. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Payout ratio before sustaining capital is calculated by expressing cash distributions paid for the period as a percentage of cash available for distribution before deducting the sustaining capital. This measure, in combination with other measures, is used by the investment community to assess the sustainability of the current cash distributions.

Senior debt to total capitalization is calculated by dividing long-term debt by the sum of long-term debt, Debentures and total partners' equity. This measure, in combination with other measures, is used by the investment community to assess the financial strength of the entity.

Total debt to total capitalization is calculated by dividing the sum of long-term debt, Debentures and the conversion feature on Debentures by the sum of long-term debt, Debentures and total partners' equity. This measure, in combination with other measures, is used by the investment community to assess the financial strength of the entity.

Working capital is calculated by subtracting current liabilities from current assets.

ADDITIONAL INFORMATION

Additional information relating to Inter Pipeline, including Inter Pipeline's AIF, is available on SEDAR at www.sedar.com.

Dated at Calgary, Alberta this 22nd day of February, 2007 (amended to March 6, 2007 for subsequent event disclosure regarding the acquisition of Terasen Pipelines (Corridor) Inc.).

Management's Responsibility for Financial Reporting

The management of Pipeline Management Inc. (the General Partner), the General Partner of Inter Pipeline Fund (Inter Pipeline), is responsible for the presentation and preparation of the accompanying consolidated financial statements of Inter Pipeline on pages 66 to 92 and all related financial information in this Annual Report.

The consolidated financial statements have been prepared by the General Partner in accordance with Canadian generally accepted accounting principles and, where necessary, include amounts based on the best estimates and judgements of the management of the General Partner. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

The management of the General Partner recognizes the importance of Inter Pipeline maintaining high standards in the preparation and dissemination of statements presenting its financial condition. If alternative accounting methods exist, management has chosen those policies it deems the most appropriate in the circumstances. In discharging its responsibilities for the integrity and reliability of the financial statements, management of the General Partner has developed and maintains a system of accounting and reporting supported by internal controls designed to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized.

In accordance with the Limited Partnership Agreement, Ernst & Young LLP, an independent firm of chartered accountants, was appointed by the General Partner to audit Inter Pipeline's consolidated financial statements and provide an independent audit opinion. To provide its opinion on the accompanying consolidated financial statements, Ernst & Young LLP reviews Inter Pipeline's system of internal controls and conduct its work to the extent it considers appropriate.

The Audit Committee, comprised entirely of independent directors, is appointed by the Board of Directors of the General Partner. The Audit Committee meets quarterly to review Inter Pipeline's interim consolidated financial statements and Management's Discussion and Analysis and recommends its approval to the Board of Directors. As well, the Audit Committee meets annually to review Inter Pipeline's annual consolidated financial statements and Management's Discussion and Analysis and recommends its approval to the Board of Directors. The Board of Directors of the General Partner approves Inter Pipeline's interim and annual consolidated financial statements and the accompanying Management's Discussion and Analysis.

Pipeline Management Inc., as General Partner of Inter Pipeline Fund:

David W. Fesyk	William A. van Yzerloo
President and Chief Executive Officer	Chief Financial Officer

February 22, 2007 (except for note 27 which is as of March 6, 2007)

Auditors' Report

To the Partners of Inter Pipeline Fund

We have audited the consolidated balance sheets of Inter Pipeline Fund as at December 31, 2006 and 2005 and the consolidated statements of partners' equity, net income and cash flows for the years then ended. These financial statements are the responsibility of the management of Pipeline Management Inc. on behalf of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants
February 22, 2007 (except for note 27 which is as of March 6, 2007)
Calgary, Canada

Consolidated Balance Sheets

(thousands of dollars)	As at December 31 2006	2005
ASSETS		
Current Assets		
Cash	$ 16,294	$ 17,525
Funds held in trust (note 2)	–	37,964
Accounts receivable	131,520	130,175
Prepaid expenses and other deposits	13,032	12,771
Total Current Assets	160,846	198,435
Intangible assets (note 5)	374,583	385,977
Property, plant and equipment (note 6)	1,545,341	1,442,367
Deferred financing charges (note 7)	1,541	1,753
Goodwill (note 8)	74,803	53,893
Total Assets	$ 2,157,114	$ 2,082,425
LIABILITIES AND PARTNERS' EQUITY		
Current Liabilities		
Cash distributions payable (note 9)	$ 14,121	$ 11,998
Accounts payable and accrued liabilities	123,593	131,626
Deferred revenue	10,108	4,149
Current portion of Convertible Debentures (note 10)	11,697	–
Total Current Liabilities	159,519	147,773
Long-term debt (note 11)	674,800	805,800
Convertible Debentures (note 10)	–	15,948
Asset retirement obligation (notes 2 and 12)	20,530	16,715
Environmental liabilities (note 13)	10,259	5,025
Pension liabilities (note 14)	3,442	2,060
Long-term incentive plan (note 17)	1,337	4
Future income taxes (notes 2 and 15)	88,839	56,025
Total Liabilities	958,726	1,049,350
Commitments (notes 22 and 23)		
Partners' Equity		
Conversion feature on Convertible Debentures (note 10)	516	707
Cumulative foreign currency translation (note 18)	30,779	(9,706)
Partners' equity (note 16)	1,167,093	1,042,074
Total Partners' Equity	1,198,388	1,033,075
Total Liabilities and Partners' Equity	$ 2,157,114	$ 2,082,425

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Pipeline Management Inc., as General Partner of the Partnership:

Director Director

Consolidated Statements of Partners' Equity

(thousands of dollars)	Class A Limited Liability Partnership Units	Class B Unlimited Liability Partnership Units	Years Ended December 31 2006 Total	2005 Total
Balance, beginning of year	1,041,032	1,042	1,042,074	1,063,325
Net income for the year	130,481	131	130,612	89,257
Cash distributions declared	(160,608)	(161)	(160,769)	(137,689)
Issuance of Partnership units				
Equity issuances, net of issue costs (note 16)	142,089	142	142,231	–
Conversion of Debentures (notes 10 and 16)	4,442	4	4,446	17,267
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (note 16)	6,053	5	6,058	3,965
Issued under Unit Incentive Option Plan (notes 16 and 17)	2,279	2	2,281	5,547
Amortization of Debenture issue costs	–	–	–	(283)
Unit incentive options (note 17)	160	–	160	685
Balance, end of year	$ 1,165,928	$ 1,165	$ 1,167,093	$ 1,042,074

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Net Income

(thousands of dollars)	Years Ended December 31 2006	2005
REVENUES		
Operating revenue	$1,011,038	$ 926,938
Accretion of discount on Annual Service Contract Recovery Amounts	–	53
	1,011,038	926,991
EXPENSES		
Shrinkage gas	422,790	504,817
Operating	309,238	211,662
Depreciation and amortization (note 19)	69,946	61,413
Financing charges (note 20)	39,889	35,716
General and administrative	28,710	17,525
Management fee to General Partner	5,064	3,895
Acquisition fee to General Partner (notes 2 and 3)	376	2,490
Unit incentive options (note 17)	160	685
	876,173	838,203
INCOME BEFORE INCOME TAXES	134,865	88,788
Provision for income taxes (note 15)		
Current income tax expense	1,479	23
Future income tax expense (recovery)	2,774	(492)
	4,253	(469)
NET INCOME	$ 130,612	$ 89,257
Net income per Partnership unit (note 16)		
Basic	$ 0.65	$ 0.49
Diluted	$ 0.65	$ 0.48

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of dollars)	Years Ended December 31 2006	2005
OPERATING ACTIVITIES		
Net income	$ 130,612	$ 89,257
Depreciation and amortization	69,946	61,413
Amortization of deferred financing charges (note 20)	212	853
Unit incentive options	160	685
Non-cash operating expense	962	1,445
Non-cash general and administrative expense	748	(152)
Future income taxes	2,774	(492)
Accretion of discount on Annual Service Contract Recovery Amounts	–	(53)
Funds from operations	205,414	152,956
Net change in non-cash working capital (note 24)	(3,771)	18,875
Cash provided by operating activities	201,643	171,831
INVESTING ACTIVITIES		
Decrease (increase) in funds held in trust	37,851	(38,324)
Acquisition of TLG (note 2)	(37,181)	–
Assumption of cash on the acquisition of TLG (note 2)	303	–
Acquisition of Simon Storage (note 3)	(187)	(258,625)
Assumption of cash on the acquisition of Simon Storage (note 3)	–	12,803
Annual Service Contract Recovery Payment	–	2,402
Expenditures on property, plant and equipment	(65,553)	(22,299)
Proceeds on sale of assets	236	365
Acquisition of the NGL extraction business	–	342
Net change in non-cash investing working capital (note 24)	(1,305)	(2,095)
Cash used in investing activities	(65,836)	(305,431)
FINANCING ACTIVITIES		
Cash distributions declared	(160,769)	(137,689)
(Decrease) increase in other long-term debt, net of repayments	(131,000)	275,000
Issuance of Partnership units, net of issue costs	142,231	–
Cash received under Distribution Reinvestment and Optional Unit Purchase Plan	6,058	3,965
Issuance of units under Unit Incentive Option Plan	2,281	5,547
Issuance of Class B units upon Debenture conversions	4	16
Deferred financing charges	–	(142)
Net change in non-cash financing working capital (note 24)	2,123	743
Cash (used in) provided by financing activities	(139,072)	147,440
Effect of foreign currency translation on foreign denominated cash	2,034	(727)
(Decrease) increase in cash	(1,231)	13,113
Cash, beginning of year	17,525	4,412
Cash, end of year	$ 16,294	$ 17,525

See accompanying notes to the consolidated financial statements.

Consolidated Financial Statements

Notes to Consolidated Financial Statements

December 31, 2006 and 2005
(tabular amounts in thousands of dollars, except per unit amounts)

STRUCTURE OF THE PARTNERSHIP

Inter Pipeline Fund (Inter Pipeline) was formed as a limited partnership under the laws of Alberta pursuant to a Limited Partnership Agreement (LPA) dated October 9, 1997. Pursuant to the LPA, Pipeline Management Inc. (the General Partner) is required to maintain a minimum 0.1% interest in the Partnership. Inter Pipeline is dependent on the General Partner for the administration and management of all matters relating to the operation of Inter Pipeline. Inter Pipeline is comprised of four industry operating segments located in two geographic segments: NGL extraction business, conventional oil pipeline business, oil sands transportation business, and bulk liquid storage business, as discussed below in the segment reporting policy.

Under the LPA, the General Partner is entitled to recover all direct and indirect expenses, including general and administrative expenses, incurred on behalf of Inter Pipeline. The General Partner also receives an annual base fee equal to 2% of Inter Pipeline's annual "Operating Cash" as defined in the LPA. In addition, the General Partner is entitled to earn an annual incentive fee of between 15% and 35% of Inter Pipeline's annual Distributable Cash as defined in the LPA (LPA Distributable Cash) in excess of $1.01 per unit to $1.19 per unit respectively; an acquisition fee of 1.0% of the purchase price of any assets acquired by Inter Pipeline (excluding the pipeline assets originally acquired); and a disposition fee of 0.5% of the sale price of any assets sold by Inter Pipeline.

Inter Pipeline currently makes monthly cash distributions to holders of the Class A limited liability partnership units (Class A units) and Class B unlimited liability partnership units (Class B units) (collectively Partnership units) as discussed in note 9.

The General Partner holds a 0.1% partnership interest in Inter Pipeline represented by Class B units. Public investors hold the remaining 99.9% partnership interest as limited partners represented by Class A units. The General Partner's 0.1% partnership interest is controlled by Pipeline Assets Corp. (PAC).

The General Partner is a wholly-owned subsidiary of PAC, a corporation controlled solely by the Chairman of the Board of the General Partner. Certain of the officers and directors of the General Partner have non-voting shares in PAC that entitle them to dividends. The entitlement to retain these shares of PAC and to receive dividends is tied to either the continuing employment of the officers or the continued service as a director of the General Partner.

1. Summary of Significant Accounting Policies

The consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, have in management's opinion been properly prepared within reasonable limits of materiality and the framework of the accounting principles described below. Amounts are stated in Canadian dollars unless otherwise indicated.

The consolidated financial statements include the accounts of Inter Pipeline and its subsidiaries. Inter Pipeline's investment in the Cold Lake Pipeline Limited Partnership (Cold Lake LP) and its general partner, Cold Lake Pipeline Ltd., are accounted for using the proportionate consolidation method whereby Inter Pipeline's 85% proportionate share of assets, liabilities, revenues and expenses are included in the accounts, and are presented within the oil sands transportation segment (note 4). Inter Pipeline's interest in all other subsidiaries are accounted for using the consolidation method.

Segment Reporting

Inter Pipeline determines its reportable segments based on the nature of its operations and geographic location, which is consistent with how the business is managed.

Industry segments

The NGL extraction business consists of processing natural gas to extract natural gas liquids including ethane and a mixture of propane, butane and pentanes plus (propane plus). The conventional oil pipeline business is primarily the transportation, storage and processing of hydrocarbons. The oil sands transportation business is a heavy blend

and condensate pipeline system that operates under long-term contracts with a limited number of customers. The bulk liquid storage business activity comprises primarily the storage and handling of bulk liquid products through the operation of seven deep water bulk liquid storage terminals located in the United Kingdom and Ireland and two multi-purpose bulk liquid storage terminals in Germany; complementary services are provided through its bulk liquid distribution, engineering, training and facilities management divisions in the United Kingdom.

Geographic segments

Inter Pipeline has two geographic segments, Canada and Europe. The bulk liquid storage business is located in the United Kingdom, Ireland and Germany, while all other operating segments are in Canada.

Revenue Recognition

NGL extraction business

Inter Pipeline recognizes revenue when the earnings process is complete. Generally, this is as the service is provided when products are shipped to the customer in accordance with the terms of the sales contract, title or risk of loss has been transferred, and pricing is either fixed or determinable.

Conventional oil pipeline business

Revenues associated with the transportation, storage and processing of hydrocarbons on the conventional gathering systems are recognized as the service is provided.

Oil sands transportation business

The Cold Lake LP recognizes its capital fee revenues based on services provided to each founding shipper with an adjustment, if necessary, to reflect each shipper's minimum "ship-or-pay" revenue commitment. In addition, the Cold Lake LP recognizes an operating fee equivalent to substantially all of the Cold Lake LP's operating costs.

Bulk liquid storage business

Revenues derived from the storage and handling of bulk liquid products and provision of complementary services are recognized as the services are provided to customers by Inter Pipeline's subsidiaries.

Deferred revenue

Deferred revenue represents cash received in excess of revenues recognized. Similarly, accounts receivable include unbilled amounts where revenues recognized exceed the amounts billed to date.

Intangible Assets

Customer contracts, relationships and tradename

The NGL extraction business intangible assets consist of customer contracts for the sale of ethane and propane plus. The contracts include fee-based contracts, cost of service contracts and profit-sharing arrangements. The value of these contracts, calculated assuming anticipated renewals, is estimated to be realized over an average period of 30 years since the date of acquisition on July 28, 2004, which is the period over which amortization is being charged using the straight-line method.

The bulk liquid storage business intangible assets are primarily customer contracts for the storage and handling of bulk liquid products. The estimated life of the contracts ranges from 20 to 30 years. The intangibles also include customer relationships and tradename. These assets are being amortized over 30 years.

Transportation Services Agreement

The Transportation Services Agreement (TSA) is amortized on a straight-line basis over the estimated service life of 30 years of the Cold Lake LP's pipeline facilities and equipment to which the TSA relates. The carrying value of the investment in the TSA is tested for impairment by reviewing the financial reports and other public information of its counter-parties, to determine their financial ability to pay the committed amounts.

Patent

A patent that is an operational process utilized in one of the extraction facilities is being amortized over 14 years from the acquisition of the NGL extraction business on July 28, 2004.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Property, Plant and Equipment

NGL extraction plants and equipment

Plant, property and equipment of the NGL extraction business are comprised primarily of three extraction plants and associated equipment. Expenditures on the plants' expansion or betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the extraction plants and additions thereto is charged once the assets are placed in commercial operation, and is calculated using the straight-line basis over the estimated useful life of the assets, which is 30 years.

Pipeline facilities and equipment

Expenditures on the conventional gathering system's expansion and betterments are capitalized. Maintenance and repair costs, as well as pipeline integrity verification and repair costs, are expensed as incurred. Depreciation of pipeline facilities and equipment commences when the pipelines are placed in commercial operation. Depreciation of the capital costs is calculated on a straight-line basis over the estimated 30 year service life of the assets, which is also connected to the estimated remaining life of the crude oil reserves expected to be gathered and shipped on these pipeline systems.

The oil sands transportation business' property, plant and equipment consist of pipelines and related facilities. Depreciation of the capital costs is calculated on a straight-line basis over the estimated service life of the assets which is 30 years.

Storage facilities and equipment

The bulk liquid storage business' property, plant and equipment consist of storage facilities and associated equipment. Expenditures on expansion and betterments are capitalized, while maintenance and repair costs are expensed as incurred. Depreciation of the capital costs is calculated on a straight-line basis over the estimated service life of the assets which ranges from 25 to 30 years.

Deferred receipt facilities expenditures

Expenditures incurred to design and construct crude petroleum receipt facilities on the properties of third-party operators, to be owned and operated by the respective third-party operators, have been capitalized as they provide a benefit to Inter Pipeline over the life of the contracts with the third-party operators. Such expenditures are referred to as deferred receipt facilities expenditures. The costs are amortized on a straight-line basis over the term of the agreements with the third-party operators. Amortization commences when the facilities begin commercial operations.

Deferred Financing Charges

The commitment fees and associated underwriting costs related to Inter Pipeline's long-term debt are initially deferred and are amortized on a straight-line basis over the term of the related debt facility. When a facility is repaid and cancelled, any associated unamortized costs are fully written off in the same period as the cancellation.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets of the bulk liquid storage business operations acquired. Goodwill is carried at initial cost less write down for impairment. If the carrying value of the bulk liquid storage business exceeds its fair value, an impairment loss is recognized to the extent that the carrying amount of the goodwill exceeds its fair value determined on a discounted cash flow basis. During each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired the fair value.

Convertible Debentures

The 10% Convertible Extendible Unsecured Subordinated Debentures (Debentures) are classified as a liability with the exception of the portion relating to the conversion feature, which is classified as equity, resulting in the carrying value of the Debentures being less than their face value. This discount is being accreted over the term of the Debentures utilizing the effective interest rate method and the 11% interest rate implicit in the Debentures. The equity component is reclassified to Partners' Equity at the time of conversion of the Debentures into Class A units with the related interest expensed as incurred.

Asset Retirement Obligations

The accounting for asset retirement obligations is for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operations of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some manner but not its temporary idling.

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The liability accretes to its full value over time through charges to income, or until Inter Pipeline settles the obligation. In addition, the asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset, and depreciated over the asset's useful life.

NGL extraction business and bulk liquid storage business

NGL extraction and the bulk liquid storage businesses consist mainly of three NGL extraction plants and nine bulk liquid storage facilities, respectively. Inter Pipeline's asset retirement obligation represents the present value of the expected cost to be incurred upon the termination of operations and closure of these active facilities. The estimated costs for asset retirement obligations include such activities as dismantling, demolition and disposal of the facilities and equipment, as well as remediation and restoration of the plant sites.

Conventional oil pipeline business and oil sands transportation business

The property, plant and equipment of the conventional oil pipeline and oil sands transportation businesses consist primarily of underground pipelines and above ground equipment and facilities. No amount has been recorded for asset retirement obligations relating to these assets as it is not possible to reasonably estimate the fair value of the liability due to the indeterminate timing and scope of the asset retirements. As the timing and scope of retirements become determinable for certain or all assets, the fair value of the liability and the cost of retirement will be recorded. Pipeline operations will be charged with any costs associated with the future site restoration of the pipeline assets. The potential costs of future site restoration will be a function of several factors, including regulatory requirements at the time of abandonment, the size of the pipeline and the pipeline's location. Abandonment requirements can vary considerably, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way.

Environmental Liabilities

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation cost can be reasonably estimated. Recoveries from third parties which are likely to be realized are separately recorded and are not offset against the related environmental liability.

Pension Liabilities

The cost of pension benefits earned by certain of the employees in the United Kingdom, Ireland and Germany covered by the defined benefit pension plans is actuarially determined using the projected benefit method prorated on services and management's best estimate of expected plan investment performance, final pensionable salary, terminations, and retirement ages of plan members. Plan assets are valued at fair value for the purpose of determining the expected return on plan assets. Adjustments for plan amendments are expensed over the expected average remaining service life of the employee group, which is approximately 14 years and 16 years for certain of the United Kingdom and Ireland employees, respectively, and 15 years for the German employees. Actuarial gains and losses arise from changes in assumptions and differences between assumptions and the actual experience of the pension plans. The excess of accumulated actuarial gains and losses over 10% of the greater of the benefit obligation and the fair value of plan assets is also charged to operations over the expected average remaining service life of the employee group.

The costs of pension benefits provided to employees covered by defined contribution pension plan arrangements are expensed as the contributions are made.

Long-Term Incentive Plan

Effective January 1, 2006, Inter Pipeline implemented a new long-term incentive plan (LTIP) for its employees, officers, and directors of the General Partner. The LTIP is governed by a Deferred Unit Rights Plan (DURP) (formerly the Unit Appreciation Rights Plan) document that defines how awards made under the DURP will be determined and administered. A Deferred Unit Right (DUR) (formerly a Unit Appreciation Right), as granted under the DURP, is valued based on Inter Pipeline's unit price plus credit for cash distributions paid to unitholders during the period the DURs are held. Unless otherwise provided in an individual grant agreement, the DUR will vest as to one-third on each of the successive anniversary dates from the date of grant. Upon exercise of a DUR, the amount owing will be paid out in cash net of applicable withholding taxes. As the awards are paid in cash, the DURs are accounted for on a mark-to-market basis whereby changes in the liability are recorded each period based on the number of DURs outstanding and the current market price of Inter Pipeline's units plus the accrued distributions to date.

Income Taxes

Current income taxes

Under existing tax legislation, Inter Pipeline is not subject to income taxes directly. The limited partners and the General Partner are subject to tax on their proportionate interests of the taxable income allocated by Inter Pipeline.

Certain of Inter Pipeline's subsidiaries are taxable corporations in Canada, the United Kingdom, Germany and Ireland.

Future income taxes

Inter Pipeline's future income tax liability arises due to its consolidation of its European subsidiaries and the proportionate consolidation of its 85% ownership in Cold Lake Pipeline Ltd., the General Partner of the Cold Lake LP.

Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of future changes in income tax rates will be recognized in net income in the period in which the change occurs.

Foreign Currency Translation

With the acquisition of Simon Storage Holdings Ltd. (Simon Storage) on October 4, 2005 and Simon Tanklager-Gesellschaft mbH (TLG), formerly Tanklager-Gesellschaft Hoyer mbH, on January 1, 2006, Inter Pipeline has implemented an accounting policy for foreign currency translation. Inter Pipeline accounts for Simon Storage and TLG as self-sustaining operations. Therefore, the accounts of Simon Storage and TLG are translated using the current rate method, whereby assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to these self-sustaining operations are included as a separate component of Partners' Equity.

Unit Incentive Options

Unit incentive options expense is calculated using the fair value method, whereby the value of each of the unit incentive options (Options) is determined on the date of grant using a binomial option pricing model, and that value is amortized over the vesting period of the Options as a charge to the Consolidated Statements of Net Income, with a corresponding increase recorded in the Consolidated Statements of Partners' Equity.

The consideration paid to Inter Pipeline upon the exercise of options is recorded as an increase in Partners' Equity to reflect the units issued.

Measurement Uncertainty

The amounts recorded for intangible assets, depreciation of property, plant and equipment, amortization of deferred receipt facilities expenditures, goodwill, asset retirement obligations, environmental liabilities, pension liabilities and unit-based compensation are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be material.

Financial Instruments

Financial instruments of Inter Pipeline consist of cash, funds held in trust, accounts receivable, cash distributions payable, accounts payable and accrued liabilities, long-term debt and Debentures. Carrying amounts of these financial instruments reported on the balance sheet approximate their estimated fair values, with the exception of the Debentures (note 10).

Inter Pipeline utilizes derivative financial instruments to manage its exposure to market risks relating to power prices, commodity prices, foreign exchange and interest rates. Inter Pipeline's policy is not to utilize derivative financial instruments for speculative purposes, and procedures are in place with respect to the required documentation and approvals for the use of derivative financial instruments.

In accordance with Accounting Guideline 13, Hedging Relationships, Inter Pipeline formally documents all relationships between derivative financial instruments and hedged items, as well as the risk management objective and strategy. Inter Pipeline assesses, on an ongoing basis, whether the derivative financial instruments continue to be effective in offsetting changes in fair values or cash flows of the hedged transactions. There was no impact on the consolidated financial statements as a result of this assessment.

Derivative contracts accounted for as hedges are not recognized in the Consolidated Balance Sheets. Gains and losses incurred on these contracts are recognized in income in the same period as the hedged transactions are settled. Should the hedges cease to be effective, the fair value of the derivative financial instruments will be recognized as a deferred asset or liability on the Consolidated Balance Sheets and the recognition of the changes in fair value will be recognized in income.

2. Acquisition of Simon Tanklager-Gesellschaft mbH (TLG)

On January 1, 2006, Inter Pipeline acquired all of the outstanding shares of TLG, an independent bulk liquid storage business located in Mannheim, Germany. The results of the operations of TLG have been included in the consolidated financial statements since that date. The cash consideration for this transaction was $37.2 million (27 million, including closing adjustments and acquisition costs), which was funded from Inter Pipeline's existing credit facilities. At December 31, 2005, approximately $38.0 million of cash was held in trust pending the closing of this acquisition on January 1, 2006. Concurrent with this transaction, an acquisition fee of $0.4 million was paid to the General Partner, pursuant to the terms of the LPA.

The acquisition was accounted for by the purchase method as at the closing date of January 1, 2006. Inter Pipeline has allocated the purchase price as follows:

Cash	$ 303
Non-cash working capital deficiency	(1,264)
Property, plant and equipment (note 6)	50,926
Goodwill (note 8)	12,787
Asset retirement obligation (note 12)	(301)
Environmental liability (note 13)	(2,903)
Pension liability (note 14)	(1,501)
Future tax liability (note 15)	(20,866)
	$ 37,181

3. Acquisition of Simon Storage Holdings Ltd. (Simon Storage)

On October 4, 2005, Inter Pipeline acquired all of the outstanding shares of Simon Storage for cash consideration of $258.8 million (£120 million plus closing adjustments and acquisition costs of £4.7 million). The results of the operations of Simon Storage have been included in the consolidated financial statements since that date. The acquisition was funded through an existing revolving credit facility (see note 11). Concurrent with this transaction, an acquisition fee of $2.5 million was paid to the General Partner, pursuant to the terms of the LPA.

The acquisition was accounted for by the purchase method as at the closing date of October 4, 2005. The acquisition costs were finalized during the first quarter of 2006, and Inter Pipeline allocated the purchase price as follows:

Cash	$ 12,803
Non-cash working capital deficiency	(7,694)
Intangible assets – customer contracts, relationships and tradename (note 5)	21,123
Property, plant and equipment (note 6)	237,296
Goodwill (note 8)	55,029
Asset retirement obligation (note 12)	(948)
Pension liability (note 14)	(2,289)
Future tax liability (note 15)	(56,508)
	$ 258,812

4. Segment Reporting

Inter Pipeline operates its business under the following principal business segments:

	2006						
	Canada					Europe	Total Canadian and European Operations
	NGL Extraction Business	Conventional Oil Pipeline Business	Oil Sands Transportation Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business*	
Revenues	$ 691,767	$ 116,722	$ 58,823	$ –	$ 867,312	$ 143,726	$ 1,011,038
Expenses							
Shrinkage gas	422,790	–	–	–	422,790	–	422,790
Operating	157,777	36,832	21,336	–	215,945	93,293	309,238
Depreciation and amortization	25,169	18,349	16,036	–	59,554	10,392	69,946
Financing charges	–	–	–	40,436	40,436	(547)	39,889
General and administrative	–	–	–	18,107	18,107	10,603	28,710
Management fee to General Partner	–	–	–	5,064	5,064	–	5,064
Acquisition fee to General Partner	–	–	–	376	376	–	376
Unit incentive options	–	–	–	160	160	–	160
Total expenses	605,736	55,181	37,372	64,143	762,432	113,741	876,173
Income before income taxes	86,031	61,541	21,451	(64,143)	104,880	29,985	134,865
Provision for income taxes	–	–	173	–	173	4,080	4,253
Net income	$ 86,031	$ 61,541	$ 21,278	$(64,143)	$ 104,707	$ 25,905	$ 130,612
Expenditures on property, plant and equipment	$ (9,839)	$ (15,700)	$ (17,052)	$ –	$ (42,591)	$ (22,962)	$ (65,553)
Total assets	$ 766,923	$469,192	$ 453,867	$ –	$1,689,982	$ 467,132	$2,157,114
Property, plant and equipment	$ 413,627	$446,748	$ 349,871	$ –	$1,210,246	$ 335,095	$1,545,341
Goodwill	$ –	$ –	$ –	$ –	$ –	$ 74,803	$ 74,803

* In 2006, the bulk liquid storage business included twelve months of operations in the United Kingdom, Germany and Ireland.

	2005						
	Canada					Europe	Total Canadian and European Operations
	NGL Extraction Business	Conventional Oil Pipeline Business	Oil Sands Transportation Business	Corporate	Total Canadian Operations	Bulk Liquid Storage Business*	
Revenues	$ 724,011	$ 109,873	$ 62,704	$ 53	$ 896,641	$ 30,350	$ 926,991
Expenses							
Shrinkage gas	504,817	–	–	–	504,817	–	504,817
Operating	143,414	32,260	17,662	–	193,336	18,326	211,662
Depreciation and amortization	24,566	18,806	16,047	–	59,419	1,994	61,413
Financing charges	–	–	–	35,661	35,661	55	35,716
General and administrative	–	–	–	14,922	14,922	2,603	17,525
Management fee to General Partner	–	–	–	3,895	3,895	–	3,895
Acquisition fee to General Partner	–	–	–	2,490	2,490	–	2,490
Unit incentive options	–	–	–	685	685	–	685
Total expenses	672,797	51,066	33,709	57,653	815,225	22,978	838,203
Income before income taxes	51,214	58,807	28,995	(57,600)	81,416	7,372	88,788
Provision for income taxes	–	–	193	–	193	(662)	(469)
Net income	$ 51,214	$ 58,807	$ 28,802	$ (57,600)	$ 81,223	$ 8,034	$ 89,257
Expenditures on property, plant and equipment	$ (3,656)	$ (13,890)	$ (384)	$ –	$ (17,930)	$ (4,369)	$ (22,299)
Total assets	$ 780,434	$ 471,158	$ 456,430	$ –	$1,708,022	$ 374,403	$2,082,425
Property, plant and equipment	$ 415,558	$ 449,341	$ 345,824	$ –	$1,210,723	$ 231,644	$1,442,367
Goodwill	$ –	$ –	$ –	$ –	$ –	$ 53,893	$ 53,893

* In 2005, the bulk liquid storage business included three months of operations in the United Kingdom and Ireland.

5. Intangible Assets

			December 31 2006	December 31 2005
	Cost	Accumulated Depreciation & Amortization	Net Book Value	Net Book Value
NGL extraction business				
Customer contracts	$ 287,612	$ (23,174)	$ 264,438	$ 274,025
Patent	8,727	(1,507)	7,220	7,844
Oil sands transportation business				
Transportation Services Agreement	93,548	(12,892)	80,656	83,881
Bulk liquid storage business				
Customer contracts and relationships	17,346	(722)	16,624	15,100
Tradename	5,889	(244)	5,645	5,127
	$ 413,122	$ (38,539)	$ 374,583	$ 385,977

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6. Property, Plant and Equipment

	Cost	Accumulated Depreciation & Amortization	December 31 2006 Net Book Value	December 31 2005 Net Book Value
NGL extraction business				
Facilities and equipment	$ 443,627	$ (33,617)	$ 410,010	$ 412,140
Spare parts	3,617	–	3,617	3,418
Conventional oil pipeline business				
Facilities and equipment	775,123	(328,801)	446,322	448,180
Deferred receipt facilities expenditures	6,138	(5,712)	426	1,161
Oil sands transportation business				
Facilities and equipment	389,428	(49,941)	339,487	335,440
Pipeline linefill	10,384	–	10,384	10,384
Bulk liquid storage business				
Facilities and equipment	342,428	(7,333)	335,095	231,644
	$ 1,970,745	$ (425,404)	$ 1,545,341	$ 1,442,367

Property, plant and equipment costs above include $48.7 million (2005 – $17.0 million), related to construction in progress for which no depreciation or amortization has been recorded in the current year.

7. Deferred Financing Charges

	Cost	Accumulated Depreciation & Amortization	December 31 2006 Net Book Value	December 31 2005 Net Book Value
Loan Payable to General Partner	$ 1,991	$ (450)	$ 1,541	$ 1,753

8. Goodwill

Goodwill relates to the bulk liquid storage business. The changes in the book value of goodwill are as follows:

	2006	2005
Balance at beginning of year	$ 53,893	$ –
Acquisition (notes 2 and 3)	12,787	55,813
Finalization of purchase price allocation (note 3)	(784)	–
Foreign currency translation adjustments	8,907	(1,920)
Balance at end of year	$ 74,803	$ 53,893

9. Cash Distributions Payable

Section 5.2 of the LPA requires that Inter Pipeline make distributions of LPA Distributable Cash on a monthly basis, provided that Inter Pipeline has cash available for such payment (thereby excluding any cash withheld as a reserve). LPA Distributable Cash is defined to generally mean cash from operating, investing and financing activities, less certain items, including any cash withheld as a reserve that the General Partner determines to be necessary or appropriate for the proper management of Inter Pipeline and its assets. As a result of the General Partner's discretion to establish reserves under the LPA, cash distributed to unitholders is always equal to LPA Distributable Cash.

For the year ended December 31, 2006, Inter Pipeline declared cash distributions totaling $160.8 million (December 31, 2005 – $137.7 million). As at December 31, 2006, distributions of $14.1 million are payable to 201.5 million outstanding Class A units and 0.2 million outstanding Class B units at $0.07 per unit (December 31, 2005 – $12.0 million payable to 184.4 million outstanding Class A units and 0.2 million outstanding Class B units at $0.065 per unit).

10. Convertible Debentures

Effective December 18, 2002, Inter Pipeline issued $138.0 million of Debentures for net proceeds of $132.5 million. The Debentures had an initial maturity date of February 15, 2003, which was extended to December 31, 2007, pursuant to the acquisition of Cold Lake LP.

The Debentures bear interest at 10% per annum, payable semi-annually on June 30 and December 31 of each year. The Debentures are not collateralized and are subordinated to substantially all other liabilities of Inter Pipeline including Inter Pipeline's credit facilities.

The Debentures are convertible at the option of the holder into Class A units at any time prior to December 31, 2007 at a conversion price of $6.00 per Class A unit. The Debentures were not redeemable by Inter Pipeline before December 31, 2005. From January 1, 2006 to December 31, 2006, no Debentures were redeemed in whole or in part at the option of Inter Pipeline. The Debentures may have been redeemed at a price equal to their principal amount plus accrued and unpaid interest, provided that the market price of the Class A units met certain criteria. Subsequent to December 31, 2006, the Debentures may be redeemed by Inter Pipeline in whole or in part at a price equal to the principal amount, plus accrued and unpaid interest.

At the option of Inter Pipeline, the repayment of the principal amount of the Debentures may be settled with Class A units. The number of Class A units to be issued upon redemption by Inter Pipeline will be calculated by dividing the principal by 95% of the market price. The interest payable may also be settled with the issuance and sale of sufficient Class A units to satisfy the interest obligation. At December 31, 2006, the Debentures outstanding had a fair market value of $17.3 million (2005 – $26.1 million).

	Discounted Obligation, Net of Accretion	Equity Component	Total
Balance at December 31, 2004	32,510	1,395	33,905
Conversions into Class A units in 2005	(16,562)	(688)	(17,250)
Balance at December 31, 2005	15,948	707	16,655
Conversions into Class A units in 2006	**(4,251)**	**(191)**	**(4,442)**
Balance at December 31, 2006	**$ 11,697**	**$ 516**	**$ 12,213**

The equity component of Inter Pipeline's Debentures was determined using the Black Scholes model based on the following key assumptions:

Risk-free rate of return	4.06%
Expected volatility of Class A units trading value	20%
Expected cash yield of Class A units	10%
Expected term of conversion option to expiry	5 years

11. Long-Term Debt

	December 31 2006	December 31 2005
Loan Payable to General Partner (a)	$ 379,800	$ 379,800
$500 million Unsecured Revolving Credit Facility (b, c, d, e)	295,000	426,000
	$ 674,800	$ 805,800

(a) On October 28, 2004, Inter Pipeline borrowed $379.8 million from the General Partner with the following terms:

- $91.2 million due 2012, 5.85%; and
- $288.6 million due 2014, 6.15%.

On this date, the General Partner had received $379.8 million by way of a private placement note issuance to a combination of American and Canadian institutional investors and immediately loaned the funds to Inter Pipeline. These proceeds were then used to partially repay the $443 million Unsecured Non-Revolving Credit Facility used to acquire the NGL extraction business.

This loan to Inter Pipeline from the General Partner has the identical repayment terms and commitments as the notes payable by the General Partner to the institutional noteholders, except for a nominal interest rate increase of 0.05% over the rates payable on the notes issued by the General Partner. There are no scheduled repayments of the principal amounts of the notes payable to the General Partner prior to maturity. A prepayment may be made at any time, in which case the General Partner would generally be required to pay a premium of 50 basis points over the implied yield to maturity and, if applicable, swap breakage costs of the counterparty. Financing costs of $2.0 million were incurred by the General Partner and charged to Inter Pipeline, at which time they were deferred (note 7).

Inter Pipeline has guaranteed the notes issued by the General Partner to the noteholders. The guarantee may be exercised in the event of default by the General Partner pursuant to the terms of the Note Purchase Agreement and is equal to the amount of principal outstanding at the time of default, including a premium of 50 basis points over the implied yield to maturity, accrued interest and, if applicable, swap breakage costs.

(b) On September 29, 2006, the $500 million Unsecured Revolving Credit Facility was amended to extend the revolving period and reduce pricing margins. Under the amendment, the facility is fully revolving for a period of five years from September 29, 2006. This revolving period may be extended at any time with the agreement of the lenders, but it cannot exceed five years from the date of extension. The amendment contains an option to increase the total facility up to a maximum of $750 million subject to satisfying certain conditions.

Fees on amounts borrowed at floating rates based on bankers' acceptances decreased from 75 basis points to 60 basis points, while fees on unborrowed amounts decreased from 15 basis points to 12.5 basis points. If Inter Pipeline's credit rating changes, the fees on floating rate amounts could increase by up to 35 basis points or reduce by up to 22.5 basis points, while fees on undrawn amounts could increase by up to 15 basis points and decrease by up to 2.5 basis points.

(c) During the three months ended March 31, 2006, Inter Pipeline repaid a portion of the outstanding $500 million Unsecured Revolving Credit Facility with proceeds from the equity issuance completed on January 31, 2006.

(d) On September 30, 2005, the $400 million Unsecured Revolving Credit Facility was increased to $500 million, with a portion of the incremental amount being utilized to fund the acquisition of Simon Storage (note 3). This facility was fully revolving for a period of three years from September 30, 2005, and enabled funds to be borrowed, repaid and reborrowed within the revolving period. The revolving period could be extended at any time with the agreement of the lenders, but it could not exceed three years from the date of the extension.

Amounts borrowed under this facility bore interest at a floating rate based on bankers' acceptances plus 75 basis points provided Inter Pipeline maintained its current credit rating while fees on undrawn amounts were equal to 15 basis points per annum. If Inter Pipeline's credit rating changed, the interest rate could increase by up to 75 basis points or reduce by up to 37.5 basis points.

The $400 million Unsecured Revolving Credit Facility, which was utilized to repay a portion of the $443 million Unsecured Non-Revolving Credit Facility, had been entered into on October 29, 2004. The revolving period extended to October 24, 2005; however, it could have been extended for an additional 364 day period on an annual basis with the agreement of the lenders. If the revolving period was not extended, the facility would have converted to a non-revolving facility with a two-year maturity. Interest on amounts borrowed under this facility were charged at a floating rate based on bankers' acceptances plus 87.5 basis points provided Inter Pipeline maintained its current credit rating, while fees on undrawn amounts were equal to 17.5 basis points per annum. Under the terms of this facility, if Inter Pipeline's credit rating changed, the interest rate could increase by up to 87.5 basis points or reduce by up to 37.5 basis points.

(e) In 2006, Inter Pipeline had a net decrease of $131 million in its long-term debt, with the entire decreased drawn amount being on the $500 million Unsecured Revolving Credit Facility.

(f) Effective May 1, 2006, Inter Pipeline established a $20 million revolving demand loan facility with a Canadian Chartered bank for cash management purposes. Amounts borrowed under this facility bear interest at the same applicable rates as the $500 million Unsecured Revolving Credit Facility, while no fees are payable on undrawn amounts. On September 29, 2006, pricing margins on the demand loan facility were amended to reflect the new pricing margins as contained in the $500 million Unsecured Revolving Credit Facility. At December 31, 2006, no amounts were drawn on this facility.

12. Asset Retirement Obligations

The total undiscounted amount of estimated expenditures expected to be incurred on closure of active plants is $206 million, which was calculated using an inflation rate of 2% (NGL extraction business only) and an expected life of 40 years. A credit-adjusted risk-free rate of 6.1% was used to discount the estimated future cash flows for the retirement of the NGL extraction business assets, while a credit-adjusted risk-free rate of 7.8% was used to discount the estimated future cash flows for the retirement of the bulk liquid storage business assets. These obligations are not expected to occur for many years and will be funded from Inter Pipeline's resources at that time.

The following table shows the movement in the liability for asset retirement obligations:

	2006	2005
Obligation at beginning of year	$ 16,715	$ 8,743
Additions to liabilities	2,577	7,371
Accretion expense	1,063	601
Foreign currency adjustments	175	–
Obligation at end of year	$ 20,530	$ 16,715

There were no liabilities settled during the years ended December 31, 2006 and 2005.

At December 31, 2006, $0.8 million is included in accounts payable and accrued liabilities for asset retirement obligations related to the retirement of property, plant and equipment in the conventional oil pipeline business (December 31, 2005 – $0.7 million).

13. Environmental Liabilities

	2006	2005
Balance at beginning of year	$ 5,025	$ 3,580
Acquisition (note 2)	2,903	–
Additions	946	1,445
Foreign currency translation adjustments and other	1,385	–
Balance at end of year	$ 10,259	$ 5,025

14. Pension Liabilities

Inter Pipeline acquired Simon Storage through an acquisition that was completed on October 4, 2005 (note 3) and TLG through an acquisition that was completed on January 1, 2006 (note 2). At the time of acquisition, the full amounts of the pension plan liabilities were recognized on Inter Pipeline's balance sheet and there were no unrecognized gains or losses.

United Kingdom

Inter Pipeline operates a funded pension plan, the Simon Storage Pension Fund (Fund), providing benefits for its employees based primarily on years of service and final pensionable salary. The Fund is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Fund was carried out as at April 6, 2004. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Ireland

Inter Pipeline operates a funded pension plan, the Irish Bulk Liquid Storage Limited Retirement and Death Benefits Scheme (Scheme) which provides benefits for its employees based on years of service and final pensionable salary. The Scheme is administered by a corporate trustee and its assets are independent of Inter Pipeline's finances. The most recent actuarial valuation of the Scheme was carried out as at September 1, 2004. Professionally qualified actuaries performed the actuarial valuation and then adjusted and updated the results to the accounting date, with the obligation measured using the projected benefit method.

Germany

The German benefit plans included in Inter Pipeline's financial reporting relate to retirement pensions, long-service awards and partial early retirement arrangements. The German arrangements are unfunded and therefore have no assets. The most recent actuarial valuation of the long-term employee and post-retirement benefits under local tax and accounting rules was carried out as at December 31, 2006 by professionally qualified actuaries. The results of the valuation were adjusted for Inter Pipeline's financial reporting purposes, with the obligation measured using the projected benefit method.

Both the Fund and the Scheme will have the valuations updated in 2007. The German arrangements are valued annually.

The actual distribution of the respective pension plan assets at market value as of December 31 is as follows. Assets are shown at mid market value:

	United Kingdom		Ireland		Germany *	
Pension Plan Assets by Asset Category	December 31 2006	December 31 2005	December 31 2006	December 31 2005	December 31 2006	December 31 2005
Equity securities	52%	59%	–	–	–	–
Debt securities	25%	21%	–	–	–	–
Real estate	20%	17%	–	–	–	–
Cash	3%	3%	–	–	–	–
Deferred annuity contract	–	–	100%	100%	–	–
Total	100%	100%	100%	100%	–	–

The significant actuarial assumptions adopted in measuring Inter Pipeline's accrued benefit obligations as of December 31 are as follows:

	United Kingdom		Ireland		Germany *	
Weighted-Average Assumptions for Expense	December 31 2006	December 31 2005	December 31 2006	December 31 2005	December 31 2006	December 31 2005
Discount rate	4.8%	5.1%	4.2%	4.2%	4.2%	–
Rate of price inflation	2.7%	2.7%	2.0%	2.0%	2.2%	–
Rate of compensation increase	4.2%	4.2%	4.0%	4.0%	n/a	–
Rate of increase to pensions in payment	2.6%	2.6%	3.0%	3.0%	1.5%	–
Expected long-term rate of return on pension plan assets	6.3%	6.5%	5.5%	5.5%	n/a	–
Expected average remaining service life	14 years	14 years	16 years	16 years	15 years	–

	United Kingdom		Ireland		Germany *	
Weighted-Average Assumptions for Disclosure	December 31 2006	December 31 2005	December 31 2006	December 31 2005	December 31 2006	December 31 2005
Discount rate	5.2%	4.8%	4.5%	4.2%	4.5%	–
Rate of price inflation	2.9%	2.7%	2.0%	2.0%	2.2%	–
Rate of compensation increase	4.4%	4.2%	4.0%	4.0%	n/a	–
Rate of increase to pensions in payment	2.9%	2.6%	2.8%	3.0%	1.5%	–
Expected long-term rate of return on pension plan assets	6.5%	6.3%	4.5%	5.5%	n/a	–
Expected average remaining service life	14 years	14 years	16 years	16 years	15 years	–

* TLG was acquired on January 1, 2006 and therefore there are no 2005 comparative figures.

Net pension expense attributable to the respective pension plans for the year ended December 31 includes the following components:

	2006				2005*			
Components of Net Periodic Pension Cost	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany	Total
Current service cost for benefits earned	$ 2,609	$ 58	$ 16	$ 2,683	$ 1,403	$ 18	$ –	$ 1,421
Interest cost on benefit obligations	3,118	63	48	3,229	730	15	–	745
Actual return on pension plan assets	(6,161)	(57)	–	(6,218)	(2,528)	(14)	–	(2,542)
Actuarial (gain) loss on accrued benefit obligation	407	(275)	(10)	122	3,748	–	–	3,748
Costs arising in the period	$ (27)	$ (211)	$ 54	$ (184)	$ 3,353	$ 19	$ –	$ 3,372
Differences between costs arising in the period and costs recognized in the period in respect of:								
• Return on pension plan assets	2,331	(7)	–	2,324	1,633	–	–	1,633
• Actuarial (gain) loss	(407)	275	10	(122)	(3,748)	–	–	(3,748)
Net periodic pension cost recognized	$ 1,897	$ 57	$ 64	$ 2,018	$ 1,238	$ 19	$ –	$ 1,257

The following tables set forth the respective pension plans' funded status and amount included in the accrued liability on Inter Pipeline's balance sheet at December 31.

	2006				2005			
Change in Accrued Benefit Obligation	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany**	Total
Accrued benefit obligation, beginning of year	$ 61,432	$ 1,437	$ –	$ 62,869	$ –	$ –	$ –	$ –
Accrued benefit obligation acquired	–	–	1,503	1,503	57,671	1,440	–	59,111
Current and past service cost	2,751	58	16	2,825	1,403	18	–	1,421
Employee contributions	712	–	–	712	170	–	–	170
Interest cost	3,118	63	48	3,229	730	15	–	745
Benefits paid	(1,596)	(30)	(62)	(1,688)	(168)	(8)	–	(176)
Actuarial (gain) loss	407	(275)	(10)	122	3,748	–	–	3,748
Foreign currency adjustments	9,049	150	171	9,370	(2,122)	(28)	–	(2,150)
Accrued benefit obligation, end of year	$ 75,873	$ 1,403	$ 1,666	$ 78,942	$ 61,432	$ 1,437	$ –	$ 62,869

	2006				2005			
Change in Pension Plan Assets	United Kingdom	Ireland	Germany	Total	United Kingdom	Ireland	Germany**	Total
Fair value of pension plan assets, beginning of year	$ 57,660	$ 1,084	$ –	$ 58,744	$ –	$ –	$ –	$ –
Fair value of pension plan assets acquired	–	–	–	–	55,749	1,074	–	56,823
Actual return on pension plan assets	6,161	57	–	6,218	2,528	14	–	2,542
Employer contributions	2,327	152	62	2,541	1,391	25	–	1,416
Employee contributions	712	–	–	712	170	–	–	170
Benefits paid	(1,596)	(30)	(62)	(1,688)	(168)	(8)	–	(176)
Foreign currency adjustments	8,729	138	–	8,867	(2,010)	(21)	–	(2,031)
Fair value of pension plan assets, end of year	$ 73,993	$ 1,401	$ –	$ 75,394	$ 57,660	$ 1,084	$ –	$ 58,744

* Costs relate to the three month period from acquisition of Simon Storage on October 4, 2005 to December 31, 2005.

** TLG was acquired on January 1, 2006 and therefore there are no 2005 comparative figures.

As at December 31, 2006 the Fund included assets of $0.6 million representing benefits provided on a defined contribution basis. This amount is included in the accrued benefit obligation and the fair value of plan assets figures shown above.

Reconciliation of Funded Status to Accrued Benefit Liability	2006 United Kingdom	2006 Ireland	2006 Germany	2006 Total	2005 United Kingdom	2005 Ireland	2005 Germany*	2005 Total
Funded status								
– Deficits at end of year	$ (1,880)	$ (2)	$ (1,666)	$ (3,548)	$ (3,772)	$ (353)	$ –	$ (4,125)
Unamortized past service cost	142	–	–	142	–	–	–	–
Unamortized net actuarial (gain) loss	230	(268)	(10)	(48)	2,115	–	–	2,115
Foreign currency adjustments	33	(21)	–	12	(50)	–	–	(50)
Accrued benefit liability	$ (1,475)	$ (291)	$ (1,676)	$ (3,442)	$ (1,707)	$ (353)	$ –	$ (2,060)

* TLG was acquired on January 1, 2006 and therefore there are no 2005 comparative figures.

The unamortized past service cost in the Fund reflects an augmentation granted in 2006. This will be recognized over future periods.

Unamortized net actuarial gains or losses are recognized, to the extent that they exceed 10% of the greater of the accrued benefit obligation and the fair value of pension plan assets, over the average remaining service period of active members.

15. Income Taxes

The components of income before taxes are summarized below:

	2006	2005
Canada	$ 104,880	$ 81,416
Europe *	29,985	7,372
	$ 134,865	$ 88,788

* 2005 amounts relate to the three month period from acquisition of Simon Storage on October 4, 2005 to December 31, 2005. TLG was acquired on January 1, 2006 and therefore there are no comparative figures included in 2005.

Income tax expense (recovery) varies from amounts computed by applying the Canadian federal and provincial statutory income tax rates to income before incomes taxes as shown in the following table:

	2006	2005
Net income before income taxes per financial statements	$ 134,865	88,788
Less: non-taxable Canadian partnership income	(104,851)	(81,410)
Adjusted income before taxes	30,014	7,378
Tax rate	32.50%	33.62%
	9,755	2,480
Deductible intercompany interest expense	(4,546)	(1,004)
Difference in Canadian and foreign tax rates	(595)	(291)
Difference in accounting and tax depreciation	(539)	691
Applied losses	(306)	(2,647)
Temporary difference in investment in Cold Lake LP	173	231
Taxable distributions from subsidiary	148	98
Other	163	(27)
Tax expense (recovery)	$ 4,253	$ (469)

The provision for income taxes is summarized as follows:

	2006	2005
Current		
Europe *	$ 1,479	$ 23
	1,479	23
Future		
Canada	173	193
Europe *	2,601	(685)
	2,774	(492)
Tax expense (recovery)	$ 4,253	$ (469)

* 2005 amounts relate to the three month period from acquisition of Simon Storage on October 4, 2005 to December 31, 2005. TLG was acquired on January 1, 2006 and therefore there are no comparative figures included in 2005.

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future tax years that are likely to be realized. The amount of unrecognized losses related to Europe at December 31, 2006 is approximately $3.0 million.

The tax effects of deductible temporary differences that give rise to future tax amounts are as follows:

	2006	2005
Difference between book values and tax values of:		
Property, plant & equipment	$ 78,558	$ 48,375
Intangible assets	6,680	6,068
Working capital	2,228	381
Cold Lake Pipeline Ltd.'s investment in Cold Lake LP	1,528	1,524
Tax losses in Cold Lake Pipeline Ltd.	(155)	(323)
	$ 88,839	$ 56,025

Current income taxes payable of $1.9 million (2005 – $0.1 million) are included in accounts payable.

16. Partners' Equity

Units issued and outstanding

Authorized

Unlimited number of Class A limited liability units
Unlimited number of Class B unlimited liability units

Issued and outstanding

	Class A Units	Class B Units	Total
Balance as at December 31, 2004	179,911,495	180,217	180,091,712
Issued on conversion of Debentures (note 10)	2,648,468	2,695	2,651,163
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (a)	427,469	438	427,907
Issued under Unit Incentive Option Plan (note 17)	1,420,144	1,505	1,421,649
Balance as at December 31, 2005	184,407,576	184,855	184,592,431
Issuance of units (b)	**15,000,000**	**15,016**	**15,015,016**
Issued on conversion of Debentures (note 10)	**733,479**	**677**	**734,156**
Issued under Distribution Reinvestment and Optional Unit Purchase Plan (a)	**665,714**	**474**	**666,188**
Issued under Unit Incentive Option Plan (note 17)	**719,839**	**732**	**720,571**
Balance as at December 31, 2006	**201,526,608**	**201,754**	**201,728,362**

a) **Reinvestment and Optional Unit Purchase Plan**

Pursuant to the Distribution Reinvestment and Optional Unit Purchase Plan (Plan), unitholders may elect to receive Class A units instead of cash for payment of their distribution and/or purchase additional units, at a price representing a 5% discount to the weighted-average closing trading price for the 10 trading days immediately preceding the distribution date. As a result, for 2006, 664,746 Class A units and 468 Class B units were issued with a value of $6.0 million (2005 – 424,226 Class A units and 429 Class B units were issued with a value of $3.9 million). In addition, a nominal amount of cash was received for optional unit purchases of 968 Class A units (2005 – nominal amount of cash was received for optional unit purchases of 3,243 Class A units). To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 6 Class B units (2005 – 9 Class B units) at the same discounted price. Effective with the June, 2004 distributions, the 5% discount was no longer available under the Plan with respect to purchasing additional units, but remains in place for the reinvestment of distributions.

b) **Issuance of units**

On January 31, 2006, Inter Pipeline issued 15 million Class A units at $10.00 per Class A unit. The net proceeds of $142.2 million, net of issuance costs, were applied to reduce the outstanding debt. To maintain the required 0.1% interest in Inter Pipeline, the General Partner acquired 15,016 Class B units at a price of $10.00 per Class B unit.

Calculation of Net Income per Partnership Unit

Partnership units share equally on a pro rata basis in the allocation of net income. The number of diluted units outstanding is calculated using the Treasury Stock method based on the weighted-average number of units outstanding for the period as follows:

	2006	2005
Net income attributable to unitholders – Basic	$ 130,612	$ 89,257
Interest on Debentures *	1,358	–
Net income attributable to unitholders – Diluted	$ 131,970	$ 89,257
Weighted-average units outstanding – Basic	199,565,372	182,739,323
Effect of debenture conversions *	2,266,787	–
Effect of unit options	1,267,261	1,804,706
Weighted-average units outstanding – Diluted	203,099,420	184,544,029
Net income per Partnership unit – Basic	$ 0.65	$ 0.49
Net income per Partnership unit – Diluted	$ 0.65	$ 0.48

* The debenture conversions have an anti-dilutive impact for the year ended December 31, 2005; therefore, they are not included in the calculation of diluted net income per Partnership unit.

17. Long-Term Incentive Plan and Unit Incentive Options

In 2003, the Board of Directors of the General Partner established a Unit Incentive Option Plan (Option Plan) whereby 7,312,680 Class A units have been reserved for issuance under the Option Plan. Options to purchase Class A units are granted to directors, officers, employees and consultants of the General Partner. The exercise price of the options is equal to the current market price at the date of grant, subject to an incentive reduction. The options have a five-year term with one-third of the options vesting immediately on the date of grant and one-third on each of the first and second anniversary dates thereafter.

The Option Plan provides for an incentive reduction in the exercise price of the options by the amount by which Inter Pipeline's total return per unit in each calendar year exceeds a prescribed threshold return for such calendar year. The threshold return is determined annually and is equal to 350 basis points over the 10-year Canada bond rate multiplied by the closing price of the units on the Toronto Stock Exchange (TSX) at the beginning of the year. The total return is the sum of the difference between the closing price of the units on the TSX at the end of the year or on the date of exercise, and the exercise price on the grant date, plus the cumulative dollar amount of distributions per unit declared during the year.

The following table summarizes the status of Inter Pipeline's Option Plan and DURs as at December 31, 2006 and 2005, and changes during the years then ended:

	OPTIONS			DURs
	Number of Options	Weighted-Average Exercise Price*	Weighted-Average Adjusted Exercise Price**	Number
Options outstanding, December 31, 2004	4,353,080	$ 7.04	$ 4.93	–
Options granted	186,000	$ 10.31	$ 10.13	–
Options exercised	(1,420,144)	$ 6.74	$ 3.36	–
Options cancelled	(72,335)	$ 7.31	$ 4.88	–
Options outstanding, December 31, 2005	3,046,601	$ 7.37	$ 4.65	–
Options granted	–	$ –	$ –	1,069,228
Options exercised	(719,839)	$ 6.69	$ 3.19	–
Options cancelled	(73,504)	$ 8.08	$ 6.36	(22,000)
Options outstanding, December 31, 2006	2,253,258	$ 7.56	$ 5.06	1,047,228

* The weighted-average exercise price based on the exercise price on the date of grant.

** The weighted-average exercise price adjusted for the incentive reduction.

The following table summarizes information about unit options outstanding at December 31, 2006:

	Options Outstanding			Options Exercisable	
Range of adjusted exercise prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price*	Number of Options	Weighted-Average Exercise Price*
$2.00 – $ 3.00	856,586	1.1 years	$ 2.18	856,586	$ 2.18
$4.12 – $ 5.56	618,505	2.1 years	$ 4.72	618,505	$ 4.72
$7.89 – $10.48	778,167	3.1 years	$ 8.50	716,665	$ 8.33
Total	2,253,258	2.1 years	$ 5.06	2,191,756	$ 4.91

* The weighted-average exercise prices shown for options outstanding and exercisable at the end of the period are adjusted for the incentive reduction.

The fair value of each unit option is estimated on the date of grant using the Binomial option pricing method. The weighted-average fair values of the options granted during the year and the weighted-average assumptions used in their determination are as follows:

	2006	2005	2004
Annual distribution yield	n/a	7.4%	9.1%
Risk-free interest rate	n/a	3.04%	3.32%
Expected life	n/a	3 years	3 years
Expected volatility	n/a	17.0%	17.0%
Weighted-average fair value per option	n/a	$ 1.35	$ 0.96

Consolidated Financial Statements

18. Cumulative Foreign Currency Translation Adjustment

The change in the translation adjustment included in partners' equity is the result of the fluctuation in the exchange rates on translation of net assets of self-sustaining foreign operations and exchange gains or losses on intercompany account balances that form part of the net investments.

The net change in translation adjustment is as follows:

	2006	2005
Balance at beginning of year	$ (9,706)	$ –
Effect of exchange rate variation on translation of net assets of self-sustaining operations, and portion included in income as a result of reductions in net investments in self-sustaining foreign operations	40,485	(9,706)
Balance at end of year	$ 30,779	$ (9,706)

19. Depreciation and Amortization

	2006	2005
Depreciation of facilities and equipment	$ 54,116	$ 45,361
Amortization of deferred receipt facilities expenditures	642	1,880
Amortization of intangible assets	14,145	13,608
Gain on sale of property, plant and equipment	(19)	(37)
Accretion of asset retirement obligation	1,062	601
Total depreciation and amortization	$ 69,946	$ 61,413

20. Financing Charges

	2006	2005
Interest expense	$ 15,235	$ 9,578
Interest on Loan Payable to General Partner (note 11)	23,084	23,084
Interest on Debentures (note 10)	1,358	2,201
Amortization of deferred financing charges (note 7)	212	853
Total financing charges	$ 39,889	$ 35,716

During 2006, Inter Pipeline incurred $15.2 million of interest expense (2005 – $9.6 million), including $13.8 million in respect of interest costs on its credit facilities (2005 – $7.1 million), $1.1 million in cash settlements on the interest rate swaps (2005 – $2.1 million), and $0.3 million in respect of fees on undrawn amounts (2005 – $0.4 million). Its average interest rate for the year equated to 4.77% on average borrowings of $299.3 million (2005 – 3.68% on $197.2 million).

21. Related Party Transactions

No revenue was earned from related parties for the years ended December 31, 2006 and 2005.

Inter Pipeline has entered into a support agreement that enables Inter Pipeline to request PAC, the shareholder of the General Partner and its affiliates to provide certain personnel and services to the General Partner to fulfill its obligations to administer and operate Inter Pipeline's business. Such services are incurred in the normal course of operations and amounts paid for such services are at cost for the services provided. No amounts were paid in 2006 and 2005 under the support agreement.

Amounts due from/to the General Partner and its affiliates related to their services are non-interest bearing and have no fixed repayment terms, with the exception of the loan payable to the General Partner (note 11). At December 31, 2006, $0.4 million was owed to the General Partner by Inter Pipeline (December 31, 2005 – $0.8 million).

Management fees of $5.1 million were earned by the General Partner in the year ended December 31, 2006 (2005 – $3.9 million). Acquisition fees of $0.4 million were paid to the General Partner in 2006 (2005 – $2.5 million).

Inter Pipeline has entered into a loan agreement with the General Partner for $379.8 million (note 11). At December 31, 2006, interest payable to the General Partner on the loan was $4.1 million (2005 – $4.1 million). The General Partner has earned $0.2 million from Inter Pipeline in interest income during the year (2005 – $0.2 million) on a net basis, after paying interest expense to the ultimate noteholders.

In 2006, certain of the officers and directors of the General Partner received a total of $0.7 million in dividends from PAC pursuant to their non-voting shares (2005 – $0.7 million).

22. Commitments

Minimum Lease Payments

Inter Pipeline has entered into lease agreements for office space, storage and property to 2029. The future minimum lease payments for these lease agreements are:

2007	$ 6,944
2008	5,976
2009	5,054
2010	4,291
2011	3,834
Thereafter	32,364
	$ 58,463

23. Risk Management

Inter Pipeline has not recognized assets or liabilities associated with the swap contracts outstanding at December 31, 2006, because the hedging relationships meet the conditions for hedge accounting with the exception of the heat rate swap contract, which expired on December 31, 2006 (see "Power Price Risk Management" below).

Frac-Spread Risk Management

In August 2004, Inter Pipeline established a hedging program to sell certain quantities of NGL products at fixed prices to third party counter parties and buy related quantities of natural gas at fixed prices from third party counter parties in order to manage commodity price (frac-spread) risk in its NGL extraction business. The NGL price swap agreements are calculated based on US dollar prices. Therefore, Inter Pipeline has also entered into foreign exchange contracts to sell US dollars in order to convert notional US dollar amounts related to the hedged NGL revenues.

Contracts outstanding at December 31, 2006 represent approximately 45% of forecast propane plus volumes at the Cochrane extraction plant for the period January to December 2007 at average prices of approximately $0.41 Cdn/US gallon. These average prices would approximate $0.35 US/US gallon based on the average US$/Cdn$ forward curve as at December 31, 2006. Contracts outstanding at December 31, 2006 were as follows:

	2006	
Hedge Period	January 1 to December 31, 2007	
NGL	Average Price (US$/US gallon)	Average Quantity (b/d)
Propane	1.000	4,247
Normal butane	1.156	734
Iso butane	1.169	454
Pentanes plus	1.693	363
	Average Price (Cdn$/GJ)	Average Quantity (GJ/day)
AECO natural gas	7.89	22,356
	Average Price (US$/Cdn$)	Average Monthly Notional Amount (US$ thousands)
Foreign exchange	0.893	7,971

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There were no contracts outstanding at December 31, 2005.

The fair market value of the frac-spread swap contracts resulted in unrecognized gains/(losses) at December 31 as follows:

	2006	2005
US$		
NGL swaps	$ 7,376	$ –
Cdn$		
Natural gas swaps	(10,016)	–
Foreign exchange swaps	(3,829)	–
Unrecognized loss	$ (13,845)	$ –

The realized gains (losses) on the frac-spread swap contracts recognized in income were:

	2006	2005
NGL swaps	$ (4,334)	$ (15,982)
Natural gas swaps	(12,989)	5,516
Foreign exchange swaps	744	3,529
Net realized loss on frac-spread swaps	$ (16,579)	$ (6,937)

Interest Rate Risk Management

Inter Pipeline has entered into a series of interest rate swap agreements with a Canadian chartered bank to manage its interest rate price risk exposure on floating rate bank loans. At December 31, 2006, the swap agreements have a total notional value of $45 million (2005 – $61 million).

Maturity Date	Fixed Rate per Annum (Excluding Applicable Margin)	Notional Balance
December 31, 2011	6.31%	$ 15,000
December 30, 2011	6.30%	30,000
		$ 45,000

The fair market value of the outstanding swap contracts as at December 31, 2006, results in an unrecognized loss of $4.0 million (2005 – $5.1 million). The notional principal balance of the 6.30% swap amount is reduced by $1.0 million per year for the term of the arrangement.

Power Price Risk Management

Electricity price swap contracts

Inter Pipeline has entered into a series of electricity price swap contracts to manage electricity price exposure in its conventional oil pipeline business. Contracts outstanding at December 31 were as follows:

As at December 31, 2006 **Hedge Period**	Average Price ($/MWh)	Quantity (MW)
January 1, 2007 – December 31, 2007	52.75	5.0
January 1, 2008 – December 31, 2008	54.00	2.5

As at December 31, 2005 **Hedge Period**	Average Price ($/MWh)	Quantity (MW)
January 1, 2006 – December 31, 2006	49.50	5.0
January 1, 2007 – December 31, 2007	52.75	5.0
January 1, 2008 – December 31, 2008	54.00	2.5

The fair market value of these contracts results in an unrecognized gain of $1.3 million at December 31, 2006 (December 31, 2005 – $1.7 million).

The realized gain on the electricity price swap contracts recognized in income in 2006 was $1.4 million (2005 – $1.0 million).

Heat rate swap contracts

In 2006, Inter Pipeline entered into a financial heat rate swap contract to manage electricity price risk exposure in the NGL extraction business. The contract was for a notional quantity of 14.0 MW of electric power per hour for the period January 1, 2006 to December 31, 2006 at a price equal to 6.90 GJs/MWh multiplied by the AECO monthly index price. The realized gain on the heat rate swap contracts recognized in income in 2006 was $4.3 million (2005 – nil).

Credit Risk Management

Credit exposure on financial instruments arises from the possibility that a counter-party in which Inter Pipeline has an unrealized gain fails to perform according to the terms of the contract. Inter Pipeline believes the risks of non-performance are minimal as the counter-party on the interest rate, NGL, natural gas and foreign exchange swaps is a major financial institution. The electricity price swaps are with investment grade counterparties.

24. Supplemental Cash Flow Information

Restricted Cash

Cash includes $1.7 million that is restricted as a customs bond for the Office of the Revenue Commissioners in Ireland.

Changes in Non-Cash Working Capital

	2006	2005
Accounts receivable	$ (1,345)	$ (14,704)
Prepaid expense and other deposits	(261)	(7,179)
Cash distributions payable	2,123	743
Accounts payable and accrued liabilities	(8,033)	42,367
Deferred revenue	5,959	3,076
Working capital (deficiency) acquired on acquisitions	(1,264)	(6,892)
Impact of foreign exchange rate differences and other	(132)	112
Changes in non-cash working capital	$ (2,953)	$ 17,523

These changes relate to the following activities:

	2006	2005
Operating	$ (3,771)	$ 18,875
Investing	(1,305)	(2,095)
Financing	2,123	743
(Increase) decrease in non-cash working capital	$ (2,953)	$ 17,523

Other Cash Flow Information

	2006	2005
Cash taxes paid	$ 549	$ 31
Cash interest paid	$ 40,339	$ 36,579

25. Major Customers

In 2006, Dow Chemical Canada, NOVA Chemicals and BP Canada, the principal customers of the NGL extraction business, accounted for 68% (2005 – Dow Chemical Canada, NOVA Chemicals and BP Canada accounted for 79%) of Inter Pipeline's consolidated revenue. Inter Pipeline believes the financial risk associated with these customers is minimal.

26. Comparative Figures

Certain prior period comparative figures have been reclassified to conform to the current period's presentation.

27. Subsequent Events

On March 5, 2007, Inter Pipeline announced that it entered into an agreement to acquire the Corridor pipeline system, and work-in-progress related to the Corridor capacity expansion project. This acquisition will be undertaken through the purchase of 100% of the issued and outstanding share capital of Terasen Pipelines (Corridor) Inc. (Corridor) from Terasen Inc., for cash consideration of approximately $275 million, subject to closing adjustments. Funding for the acquisition will be provided from Inter Pipeline's existing bank credit facilities and the assumption of approximately $785 million of existing operating and expansion debt held within Corridor.

Pursuant to the terms of the LPA, Inter Pipeline will pay an acquisition fee of 1% of the purchase price of the assets acquired to the General Partner. The amount of the acquisition fee will be determined at closing.

The Corridor acquisition is subject to certain closing conditions including the waiver or expiry of certain rights of first refusal. Assuming such rights of first refusal are waived or not exercised, it is anticipated that closing of the acquisition will take place on or about April 20, 2007.

Note Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements or information (collectively referred to in this note as "forward-looking statements") within the meaning of applicable securities legislation. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "continue", "estimate", "believe", "project", and similar words suggesting future outcomes or statements regarding an outlook. Any statements herein that are not statements of historical fact may be deemed to be forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the expectations, plans or intentions upon which they are based will occur. Inter Pipeline in no manner represents that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements herein. Such information, although considered reasonable by the General Partner of Inter Pipeline at the time of preparation, may later prove to be incorrect and actual results may differ materially from those anticipated in the forward-looking statements made. By their nature, forward-looking statements are subject to various risks, uncertainties and other factors, which are beyond Inter Pipeline's control, including, but not limited to: risks associated with operations, such as Inter Pipeline's ability to successfully implement its strategic initiatives and achieve expected benefits; the status, credit risk and continued existence of customers having contracts with Inter Pipeline and its subsidiaries; availability of energy commodities; volatility of and assumptions regarding prices of energy commodities; competitive factors, pricing pressures and supply and demand in the natural gas and oil transportation, ethane transportation and NGL extraction and storage industries; assumptions based upon Inter Pipeline's current guidance; fluctuations in currency and interest rates; the ability to access sufficient capital from internal and external sources; product supply and demand; risks inherent in Inter Pipeline's Canadian and foreign operations; risks of war, hostilities, civil insurrection and instability affecting countries in which Inter Pipeline and its subsidiaries operate; severe weather conditions; terrorist threats; risks associated with technology; Inter Pipeline's ability to generate sufficient cash flow from operations to meet its current and future obligations; Inter Pipeline's ability to access external sources of debt and equity capital; general economic and business conditions; the timing and costs of construction projects; Inter Pipeline's ability to make capital investments and the amounts of capital investments; changes in laws and regulations, including environmental, regulatory and taxation laws, and the interpretation of such changes to laws and regulations; the risks associated with existing and potential future lawsuits and regulatory actions against Inter Pipeline and its subsidiaries; increases in maintenance, operating or financing costs; availability of adequate levels of insurance; political and economic conditions in the countries in which Inter Pipeline and its subsidiaries operate; difficulty in obtaining necessary regulatory approvals; and such other risks and uncertainties described from time to time in Inter Pipeline's reports and filings with the Canadian securities authorities. Readers are cautioned that the foregoing list of important factors is not exhaustive. See also the section entitled "Risk Factors" in the Management's Discussion and Analysis included herein.

Except to the extent required by applicable securities laws and regulations, Inter Pipeline assumes no obligation to update or revise forward-looking statements made herein or otherwise, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this document are expressly qualified by this cautionary note.

Only persons who are residents of Canada, or if partnerships, are Canadian partnerships, in each case for purpose of the Income Tax Act (Canada) are entitled to purchase and own Class A units and 10% Convertible Extendible Unsecured Subordinated Debentures of Inter Pipeline Fund.

Inter Pipeline Fund's Statement of Corporate Governance is included in the Inter Pipeline Fund's Annual Information Form, which can be reviewed at www.sedar.com.

Board of Directors

John F. Driscoll
Director & Chairman of the Board
Toronto, Ontario, Age: 64

Mr. Driscoll is the founder and President of JF Driscoll Investment Corp., a company specializing in investment management and related advisory and consulting services, and the founding President, Chairman and Chief Executive Officer of Sentry Select Capital Corp. During the last 20 years, he has been Chairman or Chief Executive Officer of issuers that have invested, or managed the investment of, more than $10.5 billion. He holds CIM Professional Manager and Chartered Financial Analyst designations, and is a member of the Chartered Financial Analysts Institute.

H. (Bert) Alfaro[1]
Director, Chair of the Governance Committee,
Member of the Audit and Compensation Committees
Calgary, Alberta, Age: 75

Prior to October 1991, Mr. Alfaro held a variety of senior positions with Home Company Limited over a 38 year period, including Vice-President of Production. In that position, he supervised more than 500 people and was responsible for exercising functional control over the engineering, operations, drilling, pipelines, liquids and natural gas marketing and production analysis departments. A registered professional engineer (APEGGA), Mr. Alfaro has also held senior management positions as President and as a director of Federated Pipe Lines Ltd.

Bernie J. Bradley[1]
Director, Chair of the Compensation Committee,
Member of the Governance and EH&S Committees
Calgary, Alberta, Age: 64

Mr. Bradley retired in 2002 from his position as an executive with EnCana Pipelines Ltd., where he served as President of Express Pipeline Ltd. and President of Cold Lake Pipeline Ltd. He has more than 20 years of experience in the Canadian and U.S. crude oil pipeline business, including activities associated with pipeline engineering and operations, business development and financial management. Mr. Bradley holds a degree in Chemical Engineering from the University of Alberta.

Nicholas O. Brigstocke
Director
Midhurst, West Sussex, United Kingdom, Age: 64

Mr. Brigstocke has had a distinguished international career in the investment sector spanning 30 years, including tenure at the brokerage firm de Zoete and Bevan, which was later acquired by Barclays. He was appointed Chairman of Barclays de Zoete Wedd's corporate broking business, which was acquired by Credit Suisse First Boston in 1998. Mr. Brigstocke served as Chairman of Credit Suisse First Boston UK equity capital markets until 2001, and was then Senior Consultant with Bridgewell Corporate Finance Ltd. until 2004. Mr. Brigstocke serves as a non-executive director for several private and publicly-traded companies.

Lorne E. Brown[1]
Director, Member of the EH&S Committee
Green Valley, Arizona, Age: 64

Mr. Brown has over 35 years of experience in the areas of energy transportation, refining, marketing and business development. In 2007, he retired as Vice President, Raw Material Supply of CHS Inc., a diversified energy, agriculture and food processing company. His tenure at CHS Inc. included commodity trading related to refinery feedstock requirements and the supply and marketing of product streams, transportation agreements for raw material supply on pipelines, development of key customer relationships and long-range strategic plans.

Jeffery E. Errico
Director
Calgary, Alberta, Age: 56

Mr. Errico is currently the Executive Chairman of Insignia Energy Inc., a private energy company. From April 2003 to June 2006, Mr. Errico was President and Chief Executive Officer of Petrofund Energy Trust, following several years in executive officer positions with Petrofund, as well as with the NCE Resources Group. During his career, Mr. Errico also gained extensive experience in the area of economic evaluations, reservoir and operations engineering having served as a senior executive for several oil and gas companies.

David W. Fesyk
President and Chief Executive Officer
Calgary, Alberta, Age: 44

Mr. Fesyk has served as President and CEO of the General Partner since its inception in November 1997. From 1991 to 2002, he was employed by various affiliates of Koch Industries, Inc. where he held several senior executive positions, including CEO at Koch Pipelines Canada Ltd., the former General Partner of Inter Pipeline. He also served as director of South Saskatchewan Pipeline Company. Prior to joining Koch, Mr. Fesyk was employed by Esso Petroleum Canada Ltd. and various geological consulting firms.

J. Lindsay Milne [1]
Director, Chair of the EH&S Committee,
Member of the Governance and Audit Committees
Calgary, Alberta, Age: 69

Mr. Milne is an independent businessman with more than 40 years of experience in the oil and gas industry. Mr. Milne served as President of Canadian Delta Exploration Ltd., Senior Vice President – Operations of Bow Valley Energy Inc., and Senior Vice President – Exploration and Production, Western Canada at Husky Oil Operations Ltd. He has also served as a director of Peace Pipelines Ltd. and Rainbow Pipelines Ltd. and has held various engineering and management positions with Amoco Canada Petroleum Company Ltd. and Canterra Energy Ltd.

William D. Robertson [1]
Lead Independent Director, Chair of the Audit Committee,
Member of the Compensation and Governance Committees
Calgary, Alberta, Age: 62

Mr. Robertson is a Fellow Chartered Accountant and was formerly the lead oil and gas specialist at Price Waterhouse and PriceWaterhouseCoopers in Calgary. After a 36-year career with the firm, Mr. Robertson retired from practice in 2002. He previously served on the CIM Petroleum Society Standing Committee on Reserve Definitions, as well as a number of other committees overseeing the practice of accounting in Alberta.

[1] Independent Director

Abbreviations

b/d	barrels per day	m^3	cubic metres
bcf/d	billion cubic feet per day	mmcf/d	million cubic feet per day
E	estimate	MW	megawatts
GJ	gigajoules	MWh	megawatt hour
km	kilometres	NGL	natural gas liquids

Definitions

EBITDA
EBITDA is reconciled from net income by adding back depreciation and amortization, financing charges, non-cash compensation expense, acquisition fees, future income taxes and current income taxes.

Corporate Information

Officers

David W. Fesyk
President and Chief Executive Officer

William A. van Yzerloo
Chief Financial Officer

S. Jim Arsenych
Vice President, Legal

Christian P. Bayle
Vice President, Corporate Development

Anita Dusevic Oliva
Legal Counsel & Corporate Secretary

Scott D. Gerla
Vice President, Financial Reporting
& Compliance

Jeffrey D. Marchant
Vice President, Corporate Planning

Paul J. Murphy
Vice President, NGL Extraction

Jeremy A. Roberge
Vice President, Capital Markets

David Williams
Vice President, Operations

Head Office

2600, 237–4th Avenue SW
Calgary, AB, Canada T2P 4K3
Telephone: (403) 290-6000
Toll Free: 1-866-716-PIPE (7473)

Email: investorrelations@interpipelinefund.com
Website: www.interpipelinefund.com

Registrar and Transfer Agent

Computershare Trust Company
of Canada
600, 530–8th Avenue SW
Calgary, AB, Canada T2P 3S8
Telephone: 1-800-564-6253
Facsimile: 1-888-453-0330

Email: service@computershare.com

Auditors

Ernst & Young LLP
Chartered Accountants
1000, 440–2nd Avenue SW
Calgary, AB, Canada T2P 5E9

Stock Exchange Listing

The Toronto Stock Exchange
Class A units trade under the symbol IPL.UN
10% Convertible Extendible Unsecured
Subordinated Debentures trade under the
symbol IPL.DB

Investor Relations

Jeremy A. Roberge
Vice President, Capital Markets
Telephone: (403) 290-6015
Email: jroberge@interpipelinefund.com

Media Relations

Michelle Dawson
Director, Public & Regulatory Affairs
Telephone: (403) 290-2643
Email: mdawson@interpipelinefund.com

Designed and produced by Merlin Edge Inc. Printed in Canada

inter pipeline

2600, 237–4th Avenue SW
Calgary, AB, Canada T2P 4K3

Telephone: (403) 290-6000
Facsimile: (403) 290-6092
Toll Free: 1-866-716-PIPE (7473)
www.interpipelinefund.com